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THESIS

AMERICAN MARKETING METHODS IN ARGENTINA

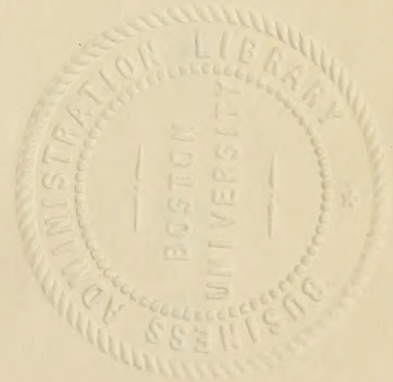
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American Marketing Methods in Argentina

Introduction

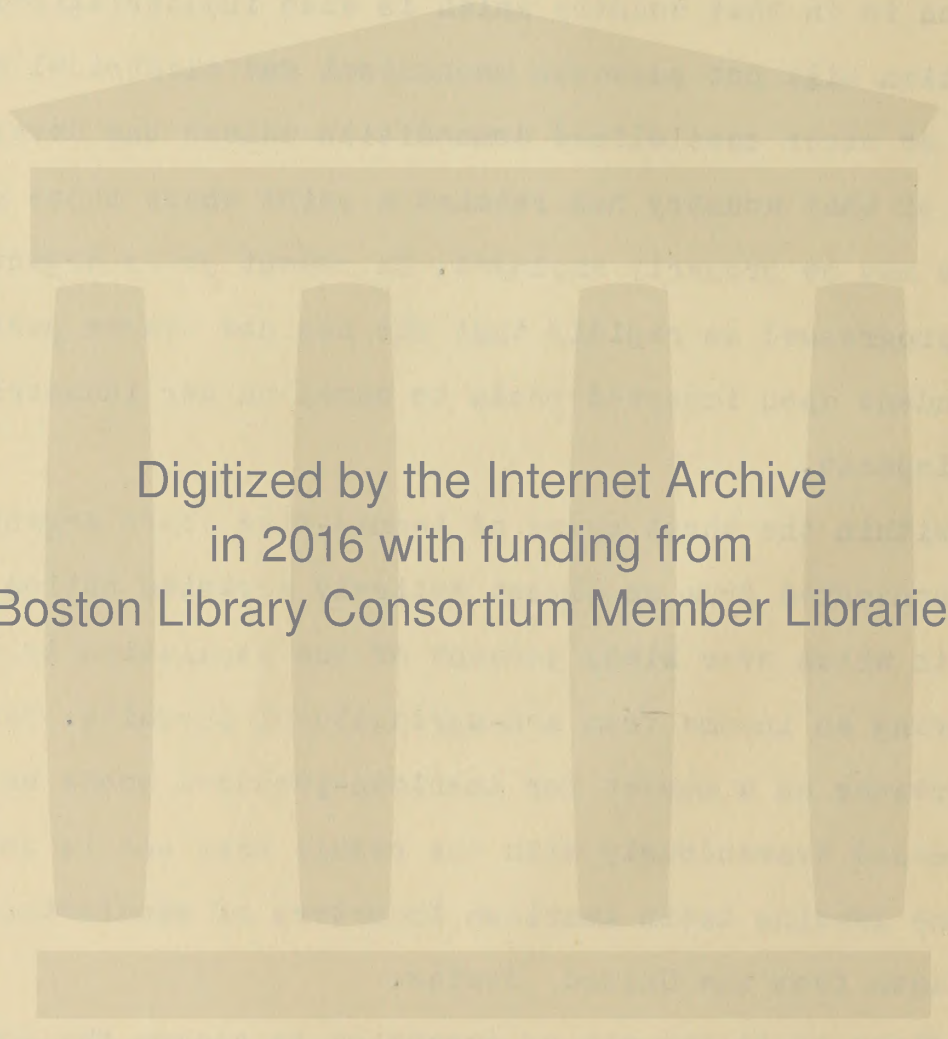
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INTRODUCTION

It is a natural phenomenon in international economics that the most profitable foreign market for an industrial nation is in that country which is also industrialized. A nation will not purchase mechanical and electrical equipment or other specialized commodities unless the development of that country has reached a point where those products may be properly employed. In recent years Argentina has progressed so rapidly that she has now become partially dependent upon imported goods to carry on her industrial development.

Within the short space of twenty-five years Argentina has converted from an almost entirely agrarian nation to one in which over sixty percent of the population is urban, deriving an income from non-agricultural pursuits. Her importance as a market for American-produced goods has increased tremendously with the result that she is now one of the leading Latin American importers of manufactured products from the United States.

Since it is the aim of Argentina to become the dominant country in South America and thus occupy the position within its sphere that the United States now holds in both North and South America, it is logical that this country should be selected for a discussion of our foreign marketing methods.



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One of the most important factors favoring the rapid development of industry in Argentina is the size and nature of the home market. The population of fourteen million has the highest per capita income in Latin America. Although the high degree of purchasing power creates demand for products, this increased income is, in turn, the result of the industrialization required to produce goods. The fact that ninety-eight percent of her population is white also favorably affects her progress.

Because this great purchasing power cannot be satisfied by Argentine-made goods alone, there is a vast market for the products of foreign countries. The methods which American exporters employ in selling and distributing commodities in that country will be the subject of this thesis. The political situation and the United States Government's attitude toward Argentina will not be discussed except where it directly affects problems in marketing.

CHAPTER I

DIRECT METHODS

1. Export Department

a. Organization

It is logical that this treatise on the various methods of marketing in Argentina should begin with the export department. All companies planning to enter into foreign trade regardless of the area or countries must form some sort of organization to execute the functions involved in such trading. The size, type or specific activities of this department may vary considerably, but all must be equipped to handle the orders received from the foreign customer and supervise the establishment of effective distribution outlets. Thus it can readily be seen that the degree of success which a company attains in foreign trade depends entirely upon the establishment of an efficient export department employing sound principles.

The size of the department is not easily predetermined. The number of personnel employed is based upon the nature of the product, the area in which sales are being promoted and the duties to be performed. It is possible to have a department consisting of only one executive and a few clerks and stenographers. Such an organization, however, could not operate on a large scale and its functions would be limited.

Nevertheless there are export departments with the personnel numbering from as few as five to as many as three hundred.

The types of departments may be differentiated according to the general organization. It may be subdivided as to the duties performed, the territories covered or the products¹ handled.

These points should be more fully explained. The department based upon the duties performed will generally have a manager in charge of each function. For example, there might be a manager for sales, credit, sales promotion, traffic, collection and advertising. There would be a staff of clerks and stenographers for each subdivision as well as assistant managers wherever required. Their duties would be equivalent to those in similar positions in the domestic organization, although the specific details would differ with the country in which they were dealing. The sales manager would be directly responsible for the maintenance of an adequate sales volume. In a company trading with Argentina, he would have to know all the conditions which affect the demand for the products, the methods to be employed to affect sales and the most efficient method of distribution. Of all the assistants to the export executive he is the most important, since the success of the entire venture depends primarily upon obtaining sales. Consequently he is in close association with

¹

Wyman, W.F., "Export Merchandising", McGraw Hill Book Co. Inc., New York, 1922, p. 38.

the export executive and they together decide on the many important questions involving policy, distribution, customers, etc. Frequently the export executive is the sales manager but this is abolished in cases where the volume is so great that the two cannot be combined. The credit manager must pass on the financial standing of the prospective customers, particularly in cases where long credit terms are given. His functions often include that of collecting, although many companies have the two managers separately. It is a difficult and important task to estimate the credit standing of a customer with whom the company has had no previous dealings and who may be many thousands of miles away. However there are several organizations such as the American Foreign Credit Underwriters Corporation and the Foreign Department of Dun and Bradstreet from which he can obtain such information. The reports from these organizations carry considerable weight in the final decision. The collection manager, whether or not his position is combined with that of the credit manager, is actually the cashier. He accepts all payments and is responsible for the correct accounting of such receipts. The sales promotion manager and advertising manager are responsible for the promotion of the product. If the company were dealing solely with Argentina these positions would undoubtedly be combined with that of the sales manager, but it rarely happens that any manufacturer who is foreign trade conscious would restrict his market to only one country. If the

area covered is wide and varied it would be impossible to combine these functions, so, as a general rule, they are distinct from those of the sales manager. The sales promotion manager must devise means of increasing product acceptance through aids to the agent or dealer in the form of placards or displays. He must also aid in the training of the agent in modern distribution and retailing methods so that the agent may, in turn, educate his wholesalers or dealers in the modern methods of salesmanship. Thus sales promotion is often considered the connecting link between the very general advertising and the more specific field, selling.¹

The promotion of the product by the advertising manager is broader in scope than that of the sales promotion manager. He must make the decision as to what media will bring the greatest returns for his outlay which is limited by the amount of the appropriation. In selling to companies in Argentina he must determine what media reach the greatest number of prospective customers for his product. Generally heavy machinery will be advertised in trade publications of that particular field. Convenience goods may be advertised generally through the same media that are used in the United States, although the problem of the actual text, written in Spanish, presents a test which can be solved only by alert, experienced managers.

The traffic manager has the important task of routing all

¹

Donald, W.J., Editor-in-Chief, "Handbook of Business Administration", McGraw Hill Book Co., Inc., 1931, p. 214.

shipments either according to the requests of the buyer or in the surest, most economical method at his disposal. In recent years, with the tremendous problem of obtaining adequate shipping space, this has been a different project, although in normal times it is the cost and routing of shipments rather than the space required that occupies the time and efforts of the traffic manager.

Thus it can be seen that in this type of export department, the organization is actually a composite of all the many departments of a domestic establishment. This method is used by those who believe that foreign selling differs enough from domestic selling as to necessitate a separate organization, and that each phase of foreign sales should be represented by specialists in that line.

The second type of organization is that based upon the territorial divisions of the total foreign market.¹ In this type the sales division of the department is subdivided into specific territories covered by the companies representatives. The sales manager is directly in charge of the entire sales force and he has assistants supervising each individual subdivision. The number of subdivisions and the size of each is determined by the volume of sales and the nature of the product. Argentina may be one of these territories or it may be included with several neighboring countries. On the other hand one subdivision may consist of all of South America. In most cases, the organization will be much the same as in

¹
Wyman, W.F., op. cit., p. 42.

the previous method. The credit, shipping, etc. will be under its respective managers. Only in cases where the company is sufficiently large to afford such duplication, will the entire process be broken down into territorial divisions.

The third type is essentially the same as the others except that it is based on the products sold. There are many cases where the products of a manufacturer are very technical and not allied with each other. In such a case it is necessary to have different salesmen and outlets for these different commodities, thus making it more efficient to subdivide the sales department according to the various products to be sold. Here again it is generally only the sales department that is affected, with the remaining departments carrying out their functions as before. There is very rarely any division by territories in such a department, and the assistant sales manager for a particular commodity has the entire foreign market of the company in which to sell his goods.

There is another type of organization for export which is based upon the belief that it is possible to train the executives, managers and clerks in the domestic departments to carry on the functions of exporting. There are only surface differences in trading with foreign countries, and the fundamentals of sales, credit, etc., are the same wherever
¹ applied. This has proven effective in many companies where

¹
 Wyman, W.F., op. cit. , p. 25.

the total volume is not large, and the force small enough so that each clerk may be adequately trained in these "surface differences". Thus there is not the overlapping of functions found in the export department. The "built-in" export department, however, should have an export manager who is responsible for the proper execution of distribution and formation of export policies as well as the training of the domestic staff. He may not devote his full time to the export duties but can handle this together with domestic work. The Export Manager of Dennison's Company, for example, is also assistant to the vice president.¹ Although within the last year or so much of his time has been spent with export activities, an extended trip to South America, etc., he continues to carry on his work in the domestic organization.

The methods of distribution used by the company will not radically alter the type of organization of the exporting concern. Thus a company which has an agent in Argentina may have a branch office in Brazil and sell only through salesmen of the company in Peru. The department is adapted to handle all types of methods. Such channels of distribution will be considered later in this treatise, but it is important at present to recognize the fact that whatever channel is used by the manufacturer there must be an organization

1

Interview with Mr. Phillip B. Hamilton, Export Manager, Dennison Company, November 22, 1946.

at home to select and control outlets and handle the details of obtaining and filling orders received from foreign countries.

b. The Export Executive

Since the separate export department involves so many varied functions, each with a manager or person in charge, there must be some executive with complete authority over these subdivisions. Such is the position of the export executive. He must have a complete knowledge of the duties of all personnel within his organization, which information can be obtained only by serving an adequate apprenticeship in the business. Thus the primary requisite of an export executive is experience in the many phases of the field.¹ Since the export department actually is a composite of all of the departments of the domestic organization, this experience must be very well- rounded. Time spent merely as a clerk in an export house will not prepare a man for the executive position of such a department. Just as the success of the foreign trade venture depends upon a well organized export department, the export department depends upon the proper selection of an executive for its success.

However experience alone will not make for a good executive. He must have a liberal education in many fields and have the ability to reason out logically problems which will arise daily.

¹

Hough, B.O., "The Export Executive", International Textbook Company, Scranton, Pennsylvania, 1925, p. 40.

These decisions must be prompt and accurate and he must be able to execute them successfully. This, of course, requires leadership ability since he must know how to obtain the best results from his subordinates.

Therefore it is the executive's duty to organize his department in such a way that the details can be entrusted to subordinates, so that his time may be devoted to the broader aspects of business, to deciding perplexing questions and to training and guiding the personnel in his department. He should develop the export policies and methods of distribution, as well as prices, discounts, commissions and terms of sale.

It is a well-established belief that, if an executive is to carry on trading successfully in Argentina, he should have a personal knowledge of that country. Thus the executive should make periodic trips to the countries with which he is dealing in order to obtain first hand information of the market, purchasing power and products desired. This, however, should not be carried to the extent where business at home is forsaken.

Thus it may be concluded that the export executive must have a complete knowledge of the functions and business of exporting if the foreign trade of the concern which he represents is to be a successful venture.

c. Location

"The solution of the problem of the correct location of the export manager is a matter of decided import, and is worthy of careful study by the management of the actual

or prospective manufacturing exporter." ¹ The decision of whether to locate at the factory or the seaboard is one that cannot be easily or definitely decided upon without carefully weighing all the factors favoring each. Generally the nature of the product and the policy of export distribution have a great effect on this problem. Although it is true that the country with which the exporter is trading has no great effect upon the decision, it is advisable to consider the reasons for locating at either of the places as it does enter into the general discussion.

It would be impossible to enumerate all the reasons why an export manager should be located either at the seaboard or at the factory, but there are several which are important and hold true for all companies. The advantages of a seaboard location are: ²

1. Closer contact with export commission houses. A company with its export department located at the seaboard has a distinct advantage in its dealings with commission houses and export merchants. These houses are invariably located at the seaboard and the export manager, through his first-hand association and friendship with the export house, can do much to bring about an increased sales volume.

2. Sales to visiting buyers. Cities such as New York which are established ports of export have many foreign

¹ Wyman, W.F., op. cit., p. 47

² Ibid

buyers in residence, who locate there because of the simplified means of purchasing due to the concentration of export companies. Many orders can be secured from these representatives that would not be obtained if the manager were at the factory.

3. Personal contacts with export managers. Many "tips" on new customers and opportunities for added sales arise from the friendships developed with other export managers.

4. Better opportunities to obtain freight space. The space may be obtained quickly and without the cost of cables or long distance phone calls which so often result in mistakes.

5. Close at hand sources of export information. There are many organizations and institutions such as the Argentine Chamber of Commerce, Argentine Consulate, Boards of Trade, technical publications, libraries and exporter's clubs which have at hand much information of importance to the exporter.

6. Proximity to services frequently required. Freight forwarders, Insurance Companies, translators and warehousing are services which the manager often needs. Nearness to the sources of these services increases efficiency.

7. Securing trained export assistants and clerks. It is possible to employ experienced personnel at the seaboard and thus avoid the necessity of personally training people in the technical aspects of foreign trade.

On the other hand there are many valid arguments for locating the export department at the factory. Some of the more important of these are:

1. Daily conferences with the highest executives in the company. Frequently, particularly when the export department is in the early stages of formation, the manager must be on hand continually to "sell" the importance of the department to the executives. The idea of "out of sight, out of mind" too often prevails when the manager is not at hand.

2. Personal and constant participation in the formation of general policies of the enterprise. Many policies may be put into effect that place the export department at a disadvantage. If the manager is on hand he can present his views in opposition to these and perhaps reach a more agreeable solution.

3. Decidedly lower overhead with many of the duplications in administrative expenses eliminated.

4. Greater coordination of the export department with the other departments. The export manager can receive much assistance in technical matters from the domestic department of the company. Also there is often ill feeling toward the demands made by the export department for specially manufactured or packed goods which actually are not too important or time consuming if the manager is on hand to straighten them out.

5. There is also the factor of protection of personal interest by being on the spot. Close friendships with associates and superiors is important in the personal advancement

of the manager.

If it is possible to draw any conclusions as to the best location of the export department, it might be done according to the conditions at the time of establishment. The majority of reasons for locating at the factory are effective especially during the period of formation. Thus it might be concluded that for the first few years after the export department is established and until it is well-organized and accepted by the company as an integral part, it may be well to remain at the factory. Later, the advantages of the seaboard location seem to prevail and it would be best at that time to transfer the department to the port. If this is done, frequent trips to the factory are extremely important and the manager should do everything possible to spend part of his time at both places, with the emphasis on the seaboard office.

2. Subsidiary Companies

Many of the larger corporations in the United States conducting extensive trade in many sections of the world, have considered it advisable to divorce the functions of exporting from those of domestic sales and manufacturing and have formed subsidiary corporations. These export subsidiaries are fundamentally the same as a regular export department of a manufacturing company. All of the functions ordinarily assumed by the export department are transferred to the subsidiary company. It is difficult, however, to make any generalities as to the actual organization and policies,

as each varies with the individual problem which must be met.

The International General Electric Corporation perhaps best exemplifies the functions of the export subsidiary company.¹ This Corporation is responsible for all General Electric sales to foreign countries. It has organized its own distribution system which varies with the market. In Argentina many of the standard products are manufactured within that country, while other goods are purchased by I.G.E. from the mother company. In such a case, operations of credit, documentation, shipping information, etc. are comparable to the export department. The only exception being that there is a transfer of credit at the time of the purchase, and I.G.E. then assumes the credit risk. In other markets the method of distribution will vary. Goods might be sold through export commission houses, export merchants, agents or branch offices. For example W.R. Grace, export merchants, handles all the sales for I.G.E. in Chile and Peru. The method is determined by individual conditions.

The Coca Cola Export Company, subsidiary to the Coca Cola Company, maintains two branch offices in Argentina,² one in Buenos Aires and the other in Cordoba. These branch offices handle the detailed administration while the export company is concerned with studying the latest developments in advertising, merchandising and sales methods.

2.

Interview with Mr. John B. Staton, Area Manager for South America Coca Cola Export Company, December 26, 1946.

¹Interview With Mr. E.B. Scherer, Sales Engineer, General Electric International Company, December 24, 1946.

This export company maintains a staff of marketing experts whomact as a survey board. If the establishment of a bottling plant, which is franchised to independent operators, is being considered in Rosario for example, this board will study such factors as : 1. the number and location of retail outlets, 2. the purchasing power of the people and the population of that city, 3. the taxes in the area and any regulations concerning the sale, distribution or manufacture of soft drinks, 4. the type of refrigeration in the area and the ability to install coolers, 5. the cost of advertising which will be required and 6. the degree and type of competetion. If the report on the market is favorable the export company will then accept bids from the local businessmen for the authority to establish such a plant. The syrup or concentrate is then exported through the subsidiary company, in a manner similar to that of an export department.

There are several major advantages for concerns exporting through their own subsidiary company. The financial advantages are, perhaps, the most important. There are distinct tax benifits aiding export subsidiary companies, the greatest of which is the Western Hemisphere Trade Corporation. Any company meeting certain requirements may be entitled to an exemption of sixteen percent with respect to its surtax¹ net income. The requirements which must be met are as follows:²

¹ "Organization for Export", Management Review, American Management Association, January, 1945.

² Management Review , American Management Review, June, 1946.

1. All business must be conducted with North, South or Central America.

2. At least ninety-five percent of its gross income for a three year period preceding the close of the taxable year, must have been derived from sources outside the United States.

3. At least ninety percent of the gross income for that period must have been derived from the active conduct of a trade or business.

Although the purpose of this benefit is to promote trade in the Americas, many subsidiary companies cannot take advantage of it since they conduct trade with other areas and hence cannot meet the requirements. There are, however, other tax benefits. An advantage may be accrued with respect to the excess profits tax if separate returns are filed. The profits are, in such a case, divided between the companies and the total excess profits are consequently reduced. In order for it to be advantageous, though, there must be a greater saving than the six percent intercorporate dividend tax which is paid by all companies filing individual returns. If consolidated returns are filed an additional two percent tax is levied on the consolidated net income. Thus all the factors affecting taxes must be thoroughly considered before determining the most favorable method of filing such returns.

However there are other advantages in maintaining a separate export company. It can better attract and hold a specialized group of skilled men in export operations. There is

less danger of a competent executive being transferred to another division of the manufacturing company where it would seem more important to have the best available administrators. A definite system of training and promotion can be installed to increase the efficiency and accuracy of the personnel.

Policies designated to promote foreign trade can be put into effect without subordinating them to domestic policies. This is an important consideration. Frequently among the executives of the domestic organization the necessity of formulating policies favorable to both foreign as well as domestic commerce is not considered. with the result that the exporting branch has to adapt itself to the domestic policy in the best possible manner. In cases where this cannot be done, special personal consideration must be given at a greater cost. A separate company avoids this disadvantage since the policies include only matters pertaining to foreign trade.

The functions carried on by the subsidiary company may be much more extensive than would be permitted in an export department. All records of its operations are kept and marketing and statistical research staffs may be authorized to study all problems at hand. Although it is true that the office organization because of the duplication of functions between the subsidiary and the mother company is more costly than the export department, such research studies often result in a more complete coverage of the market and consequent increase in the sales volume.

3. Combination Export Manager

Originally the term combination export manager was defined as the executive who acted as the export manager for two or more manufacturers instead of for only one. However in recent years the meaning has changed so that today a combination manager acts no differently than the individual export department.¹ All the functions of distribution, sales, handling of orders, information as to packing and general import regulations in foreign countries are handled exactly the same in both cases.

The establishment of proper foreign connections is essential to successful operation. These connections with wholesalers, jobbers or agents in Argentina, for example, are obtained primarily through correspondence. The combination manager will contact or be contacted by an agent of Argentina, and he will examine this agent's policy, reputation and financial standing. Information will generally pass back and forth by mail, and when an agreement has been reached, a contract is drawn up and signed. In such a case the parties have never met although a complete agreement has been made solely through correspondence.

Frequently agents and wholesalers will take trips to the United States with the principle reason being to establish connections with some manufacturer through his export manager. Here a meeting of the minds can be reached

¹
Henius, F., "Dictionary of Foreign Trade", Prentice-Hall, New York, 1946, p. 116.

more quickly and completely since both parties may personally discuss all problems of the contract. This is similar to the third method, that of the combination manager making periodical visits to his markets in order to establish new or additional representatives. It is also important for the combination manager, as with the individual export manager, to make these visits in order to remain up-to-date on the demands and conditions of the market.

There are several reasons justifying the existence of the combination export manager.¹ In the majority of cases the manufacturers which the manager represents are companies which are too small to undertake the establishment of their own department. Such a producer probably could afford only a second rate export manager with the result that the venture would have less chance of success. The manager which such a company might hire would not, in the case of these small producers, have a full time job because of the low volume of business, and his talents would be wasted for the most part when he assumed additional duties of a domestic nature.

The cost to the manufacturer is considerably less when he combines his export department with other companies. It has been estimated that his cost is approximately one half that which would be necessary to operate an individual department.²

¹ Interview with Mr. Donald J. Moore, Combination Export Manager, February 2, 1947.

² Interview with Mr. Donald J. Moore, op. cit.

Small companies, however, are not the only type which adopt the use of the combination manager. Because of the nature of their products certain larger concerns may not consider it advisable to organize their own department. For example, a concern which manufactures articles of high unit cost may have a total annual sales volume of over a million dollars. This may consist of one hundred orders of one hundred thousand dollars each or a little over eight orders a month. It would be impractical to hire a high salaried manager for only two orders per week, yet the product requires proper handling by an experienced, competent executive. The combination export manager is the answer to such a problem. On the other hand another company with a million dollar export sales volume may have a unit cost of but a thousand dollars. This would mean one thousand orders per year, enough to keep any export manager busy throughout the entire period. In such a case it would be advisable to have an export department within the company itself.

The shortage of export managers is another reason explaining the existence of combination managers. It is a fact that there are not enough experienced, "first-rate" export managers available. It is natural that any executive who fulfills all the requirements of a competent export manager is receiving a high salary and cannot easily be lured away from his present position. On the other hand

it is not advisable to place an inexperienced man in such a responsible position. Thus the combination export manager is again the solution to the problem.

The number of manufacturers that the combination export manager represents varies with the volume and nature of goods handled. Most attempt to keep this number at a minimum and concentrate on a complete coverage of their products. The addition of a new manufacturer to the group is a difficult decision. Here again arises the problem of the large and the small manufacturer. The large company is generally a long range thinker forming long term policies. Their decision to enter foreign trade will last until the venture has been given a fair trial. If, later, they do decide to discontinue exportation, it is only after it has been definitely determined from actual experience that it is inadvisable. The small company, hearing of a competitor making a good profit in a deal with Argentina, may become very enthusiastic about entering into foreign trade and hurry to a combination export manager with great plans and high expectations. If, after learning of the detailed work and adjustments that must be made in packing, production, etc., he still wishes to go through with his idea, more than likely his enthusiasm will last only as long as there are easy profits. When competition becomes keen he is as likely as not to abandon exporting, with the result that the combination export manager has wasted his time and money in building up a distribution system. How-

ever there are many exceptions to both of the above situations, and it is the responsibility of the combination manager to attempt to determine which companies will prove to be most profitable over a long period of time.

It is the general policy of the combination export managers not to assume any credit risks, although a few do on certain of their accounts. Advertising and sales promotion are carried on under the supervision of the manager, but at the expense of the manufacturer as is the case with regular export managers. Thus the combination manager receives an appropriation from the manufacturer and distributes this in the best possible manner.

The compensation received by the combination manager may be of three types. He may receive a straight salary, a commission or a combination of the two. This last type is considered the most satisfactory since the salary will generally cover a percentage of the office expenses, and the commission will become the profits. Thus the manager receives returns in proportion to his ability to sell the goods, with the safeguard of a salary sufficient to cover a portion of his expenses. Naturally, either one of the three methods should result in an approximately equal return, with the rate of commission being greater if that is the only source of income than it would be if used in conjunction with a salary.

All other functions of the combination manager are handled exactly as they would be by an export department

in the manufacturing company. Orders are received by the manager or forwarded to him, if sent to the mill, documents are made out or obtained by him and directions for shipment are sent to the manufacturer from his office. The invoice, however, is made out at the plant, but he will handle the draft if the company wishes it done in that manner. Sine the manager has a greater knowledge of the financial standing of the customers he will make suggestions and express opinions as to the credit condition of the recipient, but the final decision rests with the credit department of the company.¹

Thus it may be concluded that the employment of a combination export manager as a means of conducting foreign trade is in many instances the most economical method and often the only truly effective way. However, for it to be successful, the manufacturer must not believe that his responsibility and expense ends with the contract with the manager. It must be a cooperative agreement and will, if conducted properly, result in a fair profit for all parties.

4. Branch Factories

The subject of Branch Factories is one which is becoming increasingly important in this country's dealings with Argentina. With the tremendous industrial development in that country and its resulting increased demand for our

¹

Interview with Mr. Donald J. Moore, op. cit.

goods, more and more companies are coming to the realization that it is more efficient and profitable to manufacture the goods close to the market than thousands of miles away. It has been very aptly expressed:

" The trend in Branch Plants has been aided by the trend in decentralization, in which the advantages of low cost production have been brought about by the integration of production into compact automatic units.

Credit must also be given to the standardization and dissemination of management methods in which the Branch Plant in Buenos Aires can be administered as effectively as that in Buffalo.

This method of distribution of goods will undoubtedly take the place of those indirect methods formerly used by all countries and originated by
¹
 the British."

A. History

The migration of industry is not new, but has merely become more noticeable in the last few decades. Capital, business experience and individuals with particular business abilities have for many centuries passed over national borders and started functioning elsewhere. This migra-

¹

Parker, Woodward Graham, "Branch Plant Trend in Industry", The Management Review, American Management Association, March, 1946, p. 76.

tion of industry has frequently been caused by factors¹ other than economic reasons. A prime example¹ of this is in the beginning of the textile industry in England by the Huguenots and other groups who, in the latter part of the seventeenth century, took refuge in England because of religious persecution in Continental Europe. This was in the days when machinery in the textile industry had not been developed and skilled labor was of prime importance. However there was a slight transfer of capital since some of the emigrants brought their own looms, but the greatest importance in this migration was the emigration of skilled labor.

The migration of industry in that era, however, differed in one basic characteristic from the migration of today. This difference occurred in the complete severance of any connection or control between the new industry and the old. This may be explained simply by the fact that any nation which had an industry developed went to great trouble to keep this within its borders and not to allow it to expand to other countries that might possibly lead to unfavorable competition. Thus when an individual or a group emigrated to another country, they would of necessity have to sever completely all ties with the old country.

¹

Phelps, D.M., "Migration of Industry to South America", McGraw Hill Book Company, 1936, p. vi.

This situation is much different today. There is, in normal times, no control over the export of goods, machinery or individuals to other countries. The control is entirely at the other end, that of the country receiving the industry. However, because of the trend toward nationalism which has become particularly intense in the past century, the undeveloped countries realize that it is to their advantage to permit such industries to be established. Their self-sufficiency is increased even if the ownership of the industries is foreign. In the case of Argentina it is her desire to become a leading industrial country of South America, and assume the position in her sphere that the United States has in all of the Americas.¹ She realizes that she cannot develop to this status on her own, but that she must have aid in foreign capital, management and "know-how". This desire for industrial expansion more than offsets the fact that most of her large industry is foreign controlled or at least partially owned by foreign interests.

Thus with the reduction of restrictions on the migration of industries by the more developed countries and the fear of economic dominance on the part of the more ambitious, undeveloped countries, industries have moved to these countries in everincreasing numbers.

The first branch factory to be established in Argentina was that of Swift and Company, meat packers. In 1907 that

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Interview with Mr. Phillip B. Hamilton, op. cit.

company purchased the La Plato Cold Storage Company and commenced meat packing activities. The succes of this venture may be proven by the fact that they later extended their operations to Rio Gallegos in 1910 and to Rosario in 1924.

Later, after 1915, other meat packing companies entered and in 1918 an automobile assembly plant was established.

However the trend was slow up until 1924 at which time there were only eight American companies with branch factories, and they were composed entirely of meat packing, automobile and tire companies.¹ But there was a tremendous upward swing in branches established, so that by 1933 there was a total of thirty-one.

A comparison between the growth of Argentina and Brazil, Chile and Uruguay shows how much more quickly Argentina has advanced. In 1933 the total companies established in these four countries was sixty-six and of these thirty-one were Argentinian. At the end of 1940 there were fifty-four manufacturing companies established in Argentina and a total of one hundred twenty-five American owned companies ranging in functions from distribution and manufacturing to transportation and public utilities.²

B. Organization

There are several variations in the type of branch

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Phelps, D.M., op. cit. p. 14.

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Sammons, R.L., and Abelson, M., "American Direct Investments in Foreign Coutries --1940", Department of Commerce, Bureau of Foreign and Domestic Commerce.

factories which are established at present in Argentina. It is the decision of the management of the home company what type shall be employed, and this decision depends entirely upon the company's policy as to the extent of control it wishes to maintain over the actions and development of its branch. Some American companies feel that if they install an efficient, experienced group of executives with a knowledge of Argentine customs and laws, their branch will function better only after being given a free hand. Others have the opposite viewpoint, that the decisions on all but minor matters should come from the top management in the United States. It would be difficult to state whether one group was any more correct than the other except to mention the fact that the executives in the United States can hardly make accurate decisions without first knowing thoroughly all the facts at hand, and this cannot possibly be attained unless that executive is present in the country. On the other hand, there are many general policies which will be as effective in Argentina as in the United States. The management then, in America, with a much greater amount of experience should be given the opportunity to put the policies into effect to the mutual benefit of both parties.

The reason for differences in the types of organization is not merely one of control but also of efficiency and a greater chance for financial success. There are cases where a subsidiary company avoids some of the taxes which

must be paid by a branch of a domestic company and other cases where a branch company is more economical and saves more on administrative expenses than does the subsidiary company located in Argentina.

Thus there are several types of branch factories, each with firm advocates for its particular method. They may be sub-divided as follows:

1. A subsidiary company located in Argentina. A typical example which best explains this type of organization is that of General Motors Argentina.¹ This company is a subsidiary of the General Motors Overseas Corporation. It is an individual company with actions and policies initiated within its own management. All decisions regarding personnel, sales, credit, etc., come from its own members or executives except that the general policies of the General Motors Corporation and General Motors Overseas Corporation prevail. Also any decisions of considerable importance, such as an expensive plan for expansion, must be approved by the mother company.

The subsidiary is entirely self-sufficient in so far as finances are concerned. The books must show a profit and failure to do so consistently would mean the dissolution of the plant. All statements of profit and loss and balance sheets, as well as actual profits, are forwarded to the General Motors Overseas Corporation.

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Interview with Mr. T.R. Riedel, Managing Director, General Motors Argentina, January 3, 1947.

There are several distinct advantages to the foreign subsidiary.¹ First, it can be financed out of its own surplus since this surplus is not subject to the high United States Government taxes. Secondly, it can more readily adapt its policies to foreign conditions and competition than could a branch of a domestic company, which must receive approval of its policies from the mother company. Thirdly, it may be more favorably accepted by the Argentine businessmen than the branch plant since it offers opportunity for the investment of funds. Indirectly, this will be a cause for greater tolerance by the government.

There are, however, some disadvantages to this method: First, there is a five percent tax on dividends declared on bearer shares in Argentina.² This is a distinct disadvantage when one considers the fact that there is no tax on profits remitted to the home office by a branch. Secondly, in the event of a loss by the subsidiary company, it does not give the mother company a tax advantage and will thus be deferred until the company's final liquidation. Losses by branch factories in Argentina may be subtracted from the total profits of the company in the United States. Thirdly, the dividends paid by the subsidiary company may not be exempt from payment of excess taxes,

¹ "Organization for Export", Management Review, op. cit.

² Severa, J., "Trading Under the Laws of Argentina", Department of Commerce, Bureau of Foreign and Domestic Commerce, 1935, p. 66.

as is the case with branch companies under the Western Hemisphere Trade Corporation.¹

Under the laws of Argentina, a subsidiary company has no greater difficulty in becoming incorporated than it would have in the United States. The shareholders may be resident or non-resident, and in cases where more than twenty-five percent of the stock is held by persons in foreign countries, these persons may hold meetings and appoint proxies to represent them in the stockholders meeting in Argentina.² Directors may also be non-residents although, since they are chosen from among the stockholders, it is probable that they will maintain residency in Argentina. There is no law stating that the directors must have been in residence for any period of time as is true in many countries.

The organization of a corporation in Argentina is unique in that each company must have a "syndic".³ This syndic is a corporation officer who has been appointed by the stockholders in an advisory capacity. They attend directors' meetings and call stockholders' meetings when they deem it advisable, supervise the management of the corporation and see that the provisions of the articles of incorporation are complied with. There is no counterpart in American corporation practice for such an official.

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"Organization for Export", Management Review, op. cit.

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Servera, J., op. cit., p. 49.

³

Ibid., p. 68.

2. Branch Factory of an American Corporation. This method is very similar to the branch of an American Export Subsidiary Company. However the main difference is in the control that the home office has over the branch office in Argentina. The branch factory in Argentina has a manager in charge who is responsible for the successful operation of the factory. He is controlled directly by the American company and receives orders directly from that source. Any decisions of importance must be approved although he does have a free hand in the general operation of his plant. Most executives in the home office realize that their manager, being close to the market, has a better knowledge of the circumstances leading to a given problem and thus should be able to decide on the most adequate solution.¹ Generally the manager in Argentina makes suggestions which are approved by the top executives. Such problems as the possible changes in the design of a product to meet the market fancy, a more economical source of obtaining local materials for production and the rate of pay to the employees are decided by the manager and carried out after approval by the company in the United States.

The advantages of such a method are, to a great extent, the same as the disadvantages of the local subsidiary company. Since the profits of the branch of an American subsidiary are remitted to America, such profits may come un-

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Interview with Mr. Donald Schive, Import Department, Cork Import Inc. (Armstrong Cork).

der the Western Hemisphere Trade Corporation exemption from excess profits tax. This ruling states that any company which receives ninety-five percent of its revenue in a country of the Western Hemisphere, as the export subsidiary company dealing with Argentina would, is exempt from paying an excess profits tax.¹ This naturally is a method employed by the government to promote foreign trade with South American countries. However it would not benefit an American company that did not have an export subsidiary company, unless their entire trade was with certain countries outside the United States. Domestic income would exclude them from the benefits of such a ruling.

However there is the advantage to the domestic company which has a branch factory in Argentina that it does not have the expense of organization and administration that a foreign subsidiary or an American export subsidiary company has. Such expense can, at times, become quite large since the cost of incorporation in Argentina is based upon the amount of capital invested.

If the mother company is not large it is especially inadvisable to establish a subsidiary company either at home or abroad because of the duplications of functions. It is only when the management of a company becomes so involved as to be unwieldy that it is efficient to split up a company. As far as the rights of a branch under Argentine law is concerned, there is nothing to be gained in

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"Organization for Export", Management Review, op. cit.

forming a subsidiary, However the domestic company with a branch in Argentina is liable for the actions and losses¹ of that branch just as it would be in the United States. The manager is, according to law, comparable to an agent of the principal and the extent of his authority must be specifically outlined in the power of attorney granted to him. It is for this reason that the control over the manager is so much more complete than that of the managing director of a local subsidiary.

3. Subcontracting. Although subcontracting the manufacturer of products to local manufacturers is not directly under the category of branch factories, it may be considered indirectly as such, since the factors which make up a branch factory, "know-how", capital, American management and frequently American materials are present. Under this method a company which produces goods for export in the United States may decide that it is more advisable, for reasons to be mentioned later, to manufacture closer to the market. However the volume of sales or conditions relating to production may not favor the companies erecting their own plant. In such a case it has been found suitable to contract with a local manufacturer of similar lines to produce their product.

The Colgate-Palmolive Peet Company has found this method² of production in Argentina quite successful. They con-

¹ Servera, J., op. cit., p. 69.

² Phelps, D.M., op. cit., p. 86.

tracted with a maker of cheaper soap which was non-competitive and placed their own machines in this local soap producer's plant. The manufacture of Palmolive soap is closely supervised by Americans and the quality is maintained on the standards set in the United States. The local company must, of course, have complete knowledge of the method of production but the Colgate-Palmolive Peet Company is protected from infringement by patents. They reimburse the local company at so much per unit and carry on the sale of the soap through their own office.

The Johns-Manville Company, makers of insulation, acoustic material, composition tiling, etc., also produces many of the articles sold in Argentina under such a condition.¹ The Company is in the favorable position of having a product with a tremendous market with but little competition from other manufacturers of the same product. This is possible because of the monopoly which the company has over the supply of fiber used in its products. Because of this monopoly the company can subcontract the manufacturer of their line in Argentina, with no fear of infringement on its rights and patents. They grant the local concern, J. N. Baly, Limited, Buenos Aires, the right to produce their materials, with close supervision to maintain standards, and receive an override or commission on

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Interview with Mr. S.D. Olson, Manager Building Material Division, Export Department, Johns-Manville Corporation, December 27, 1946.

all goods which the manufacturer sells. Although the Johns-Manville Company has an interest in the stock of the concern, and thus shares in its profits, this interest is not a controlling one and the majority of revenue received by the company is from its override of sales.

The Saco-Lowell Textile Machinery Company considered the possibility of subcontracting in order to obtain machinery within this country, but decided against such a policy since the nature of the product and the demand were not suitable for it.¹ The manufacture of textile machinery requires a great amount of production skill and technical training. Thus if the policy had been accepted, it would mean the training of many workers. However the demand for the product is not stable and there might be periods when such production would necessarily have to be discontinued. Since the patents on the machinery could not adequately cover all the products, the result would probably be that after the Saco-Lowell Company had trained these men in the manufacture of their particular product and had been forced to retire temporarily from the market the concern which was subcontracting would carry on, making the goods in their own name. Thus when the company later wished to return to the market, it would find competition from the concern to which it had given its "know-how" and production information.

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Interview with Mr. E.B. Walker, Assistant Export Manager, Saco-Lowell Textile Company, November 26, 1946.

Although there are many companies which are not suited for manufacturing and distribution through subcontractors, there are many others which consider it the most efficient and profitable method of conducting business in Argentina.

C. Reason for Establishment

It may be generally stated that no matter what the type of organization used the reasons for establishing the factories are the same. Fundamentally, all the companies wish to produce a product that will meet the public demand at a price which will result in the greatest possible profit. There are usually more specific reasons why a branch factory has been organized, but they will all revert back to this basic reason.

The more important of these specific reasons or incentives toward branch plant establishment are:

1. Marketing Inducements.

a. There is less need for long range forecasting of demand. This is very important in cases where, by the nature of the product, there is a choice for the consumer to make as to color, style, model, size or any number of variations which will naturally change from time to time. Often it is impossible for a sales manager to predetermine by two or three months, which is the time required to ship goods from the States, what the demand for his product will be. If there is a factory or branch assembly plant located in Argentina, the manufacturing program can conform more closely to the immediate demand.

This can best be exemplified by the demand for phonograph records. Whether a given record will meet the public fancy is beyond accurate prediction. There may be a demand for only one thousand records of a particular song, then again it may be as high as twenty-five thousand. There would be too great a risk in sending a large supply of that record from the United States, possibly before that song even became popular, in expectation of future sales. All records sent to Argentina and unsold would be a complete loss since the expense of returning them to America would be prohibitive. With a branch pressing plant, an adequate supply of records may be pressed in a few days. Later, if the demand becomes even greater, it is a simple process to make more. If the supply is too great, the unsold records may be reclaimed and used over again, reducing losses to a minimum.

Also the advent of hand-to-mouth buying which has recently become so popular with management, increases the problem of forecasting demand.¹ No longer can American manufacturers control production on the basis of orders received months in advance of delivery. With a plant in Argentina, the rapid changes in the design and style of a product necessitated by short term buying can be met by rapid changes in manufacturing methods and a perfected stock control.

b. Availability of the Product.

With the elimination of the need for predetermination

¹Silbering, N.G., "Dynamics of Business", McGraw-Hill Book Company Inc., New York and London, 1943, p. 597.

of demand certain advantages appear. Lower inventory can be kept on hand which represents a saving on storage, insurance, obsolescence, depreciation and interest on capital invested. As a result of low inventory turnover is much more rapid.

The inventory maintained is also more nearly related to the actual demand. There is less chance of a great amount of stock being built up on items that do not move quickly, and a shortage of those most called for. Production may more readily be controlled toward the items that are in the greatest demand. Importers frequently come across shortages in their stocks mainly because of false predictions as to future demand, delays in shipment and delays in customs clearance.

c. Transportation Costs- Another marketing inducement.

If a manufacturing plant or an assembly plant is maintained in Argentina there must be some import of materials, either in the raw, semi-finished or disassembled state. Goods which can be sent in bulk or in a "knocked-down" condition can be shipped more compactly and more cheaply than in a finished state. This greater cost of transportation is realized not only in ocean rates but also in handling and port charges.

d. Adaptation of the Product to the Consumer.

The method of putting many products to use may often be variable and their production may not be standardized effectively. Local factories are an aid in helping to adapt

the product to the particular specifications which they are to meet. Elevators are a prime example of this. Since they differ in every building in size and shape, they must be made to order and production planned according to special requirements. There might be utility elevators for industrial structures in which heavy objects must be lifted or a small stylish elevator for apartments and office buildings. In each case there are further variations. Therefore it is almost imperative that cabins, doors and electrical devices be made locally. If this were not done it would mean sending the specifications to the United States for manufacture and, as might frequently happen, discover later that the job was incorrectly done or requirements has been changed. In addition to this service must be given to keep those elevators already installed in perfect operating condition. This necessitates a fully equipped workshop with all the tools and machines required to overhaul completely the elevators. Thus it would not take too great an additional investment to prepare the workshop for the manufacture of the individual parts of the product. Therefore since effective service and production is so very similar and this service is necessary, it follows that the production should be accepted as well.

The fact that the purchasing power of the majority of the people of Argentina is below ours also has an effect on the establishment of assembly plants. If they have less money to spend than we in America, it stands to reason that

they will attempt to spread it out for those things which they desire most. This means that if they can buy goods in smaller units and at a relatively lower price than is the standard in the United States, there will be a greater demand for that product and, in the long run, a higher volume of sales. Thus it is advantageous for concerns to package products in standard units which may be varied to correlate most favorably with the consumer purchasing power.

The products may also be adapted to the demand on a price stand point. A reduced price may be achieved through savings in transportation, inventory, as previously mentioned, and import duties, which will be discussed later. The reason for this tremendous advantage in reduced prices may be attributed to the fact that for many products, mainly convenience goods, the competition is largely that of price. The majority of the population of Argentina is not quality conscious and will purchase almost solely on a price basis. Thus many United States exporters of finished goods discovered that when the prices had to be raised, for example because of exchange depreciation, the volume of their sales fell off appreciably while the makers of cheaper quality and cheaper priced goods realized increased sales volume.

The reason for this lack of quality consideration can be placed largely upon the lack of education and low standards of living of many of the people.¹ They do not yet

¹ Phelps, D.M., op. cit. p. 78.

realize the advantage of paying a little more for an article of better quality, and having it give better service and last a considerably longer time. Many are so poor that if they spent more for a given object they could not buy something else which they also wanted, so they would rather accept a cheap substitute and have the additional purchasing power.

Goods manufactured in the United States on a mass production basis are all of standard quality, a quality which, for reasons previously mentioned, frequently resulted in a price that was higher than competitors' and resulted in low sales volume. Although it has often been suggested by foreign representatives and sales managers that the quality and thus the price should be lowered to meet this competition it is impossible to do so, under our production system. An American manufacturer can not vary his mass production methods so that a part is produced at low quality and the remaining at their usual standards. Thus by having a branch factory in Argentina the quality can fluctuate more easily to conform to the competitive prices while maintaining high volume production. If the general market price decreases, the branch can reduce its price by substituting cheaper materials and less accurate manufacturing.

e. Control over Distribution

Perhaps the greatest justification for the establishment of a plant in Argentina is the fact that it has made possible a more direct control over distribution. Although

it is true that not all branch sales offices distributing directly to retail dealers have local factories, it is generally true that all factories have a sales organization which carries on the function of distribution. the two, manufacturing and distribution, more or less complement each other. Maintaining control over distribution simplifies production scheduling and control since the major variations in demand, quantity, type of unit and time desired can be more accurately predicted when dealing directly with the retailer. This may be best illustrated by the General Motors Argentina Corporation.¹ The distribution is very similar to that in the United States with dealers rated by their estimated yearly sales. These figures are determined by the sales department which notifies the production department of its estimation. The production department, in turn, schedules the production accordingly. Any change discovered in the initial estimation, whether greater or smaller, is immediately relayed to the production department which acts on this latest information. Frequently there is a rapid change in consumer demands as to color, model, or style of a car and it is the quick communication of this information by the sales manager to the production manager that averts overproduction of unsaleable cars.

By maintaining a sales office as well as a factory there is less overlapping of investment. Were there no assembly plant of General Motors located in Argentina, some provisions for the large scale training of dealers and

¹ Interview with Mr. T.R. Riedel, op. cit.

mechanics would have to be made. This would entail the establishment of a large shop as a school for mechanics and the resulting staff of "teachers" or engineers specialized in General Motors cars and trucks. Provisions would have to be made for the training of dealers in salesmanship and the many other duties carried on by an efficient retail outlet. However with a local assembly plant, the mechanics may be trained in the plant, receiving actual experience in assembling the cars and trucks. The dealers may also benefit by a much more comprehensive training in all the phases of sales, advertising, accounting and sales promotion than they could merely from a sales office.

Thus, wherever possible, the functions of sales and manufacturing should be closely combined.

2. Production Incentives.

When the demand for a product reaches a certain point, it may be realized by the company making this product that it could obtain a larger share of the market if it established a plant. However the point at which this decision is reached will depend upon several factors.¹ One of the most important of these is the cost of production per unit at a given volume. For some companies the cost per unit at a low volume will not vary from that at a higher volume. Other goods decrease in cost appreciably with an increase in volume. Thus the unit cost at the estimated volume must be predetermined and compared with the price of imported

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Phelps, D.M., op. cit. p. 50.

competing goods. Also there must be an allowance for any error in estimation. Therefore if the unit costs decrease with a higher volume, it may be logically assumed that the high volume will be attained because of the greater decrease in price.

On the other hand, if the unit cost does not vary with volume and this cost is beneath that of competitors, a branch plant may be formed on the grounds that even if the demand is not large at the time, it will not have to overcome a certain volume of sales before costs decrease to a point where a profit is realized. An illustration is that of the tire manufacturing companies in Argentina. The process in tire manufacturing is such that it costs but little more to make 700 tires a day than it does to make 5000 a day.¹ This process employs the use of the unit mold in which the tires are molded and cured individually. Thus the number of molds is determined by the demand for tires and production can be readily increased by the employment of a greater number of such molds. The alternate method of tire production that is the pit method, is not applicable to Argentine manufacture since, in this case, a large volume of tires must be produced before costs can be reduced to meet those of competitors'.

By manufacturing in Argentina rather than in the United States there is also the advantage in the sources of supply. Not only is frequently cheaper to buy raw materials in Argentina, but it may also prove cheaper to import pro-

¹ Interview with Mr. Harry A. Atwater, Process Superintendent, Hood Rubber Company, January 8, 1947.

ducts from foreign countries other than the United States. Often radio parts are more reasonable when purchased from Germany than from the United States. This can be done if a company is manufacturing in Argentina, but the high cost of transportation to America and then to Argentina forbids their entrance into the States. Certain types of steel as well can sometimes be purchased more cheaply from another country than from our country.

3. The Tariff Incentive: another reason for establishment.

Although perhaps not the main reason, the recent trend toward higher tariffs has had a tremendous effect in the final decision as to whether or not to establish a branch factory.

The type of tariff imposed may be such as to determine whether it will be economical to manufacture locally. In Argentina there is a much greater tax on manufactured goods than there is on semi-finished goods and raw materials. This is true also of bulk and packaged goods. Tariffs are frequently assessed on the weight of the product plus the weight of the container. The duty on automobiles is thirty percent less if imported completely knocked-down, and fifteen percent less if it is in a semi-knocked-down condition.

4. Effect of Competition.

One of the main reasons for establishing a plant in Argentina is in the idea of eliminating as much competition as possible. Whenever a company finds that the demand is

great enough or is likely to be great enough in the near future to support a factory, the erection of that plant is seriously considered. However it is often the case that branches are established merely because of the threat that a competitor will build a factory first and thus gain the advantage.

This point may be exemplified by stating the case of the tire manufacturer in Argentina.¹ Prior to the forming of plants, all the large American makers were in the market, as well as Dunlop of England and Michelin of France. However Goodyear was the leader, supplying about one third of the demand. Rumors spread wildly among the companies concerning the establishment of branch plants. Each believed the other to be ready to commence construction almost immediately. Finally Goodyear built a factory, followed closely by Firestone and two years later by Michelin.

The result was that the other rubber manufacturers were forced out of the market which was now shared by the three companies with local factories.

It is doubtful that any of the concerns wished to enter the market at that time since the home factories were not producing at full capacity and all tires made in Argentina actually resulted in a proportionately fewer number being manufactured at home. However because of the competitive uncertainty, rumors and "shadow-boxing", with

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Phelps, D.M., op. cit., p. 87.

neither wanting the other to get ahead, they were in a sense finally forced into the market.

Competition by native companies has proven to be a help rather than a hindrance in a great many instances. The actual competition has rarely been strong enough to be a real threat to American factories, and it has had the advantage of giving protection to the American companies. The Argentine Government is less reluctant to pass legislation which will injure domestically owned concerns and their protection is shared by all other companies in the field.

A considerable amount of space has been allocated to this subject of Branch Factories in Argentina because, although it is a recent development, the trend very strongly points to their continued existence and establishment. Their future success, however, depends largely upon the attitude of the Government. It is natural that the Administration dislikes foreign ownership of interests, but until the industrial development proceeds much further than it has at present, it must accept this condition. Argentina, if it is to attain its goal as the dominating country in its sphere, must surpass all other countries within that sphere. Her greatest rival is Brazil which is undergoing an industrial revolution and westward expansion very similar to that of the United States in the middle 1800's. Whether she will surpass Argentina in this economic development is a matter open to dispute. The fact remains that there is definitely a field open to American investment and

those companies will be in a more favorable position which take advantage of this opportunity without waiting until conditions become uncertain at home.

5. Branch Office.

Comparable to the branch factory which carries on manufacturing functions in Argentina, is the branch office which handles the sales and distribution of products. Its purpose is essentially the same as branch offices in cities throughout the United States. It is the means whereby a concern located a considerable distance from the market may conduct business directly with the dealers or wholesalers, whatever the particular policy may be.

Branch offices are the major alternative to resident agents of the manufacturer. Frequently an exporting company will begin operations with an agent and later, because of unsatisfactory results, the relationship will be discontinued. The exporter, not having connections with another agent or not wishing to use the services of an agent, will establish his own sales office. His market will consist of either the retail or wholesale field. Naturally if he wishes to sell directly to the retailer, his organization will necessarily be larger than if he were selling to the wholesaler, since the required contacts or calls will be more numerous for an equal degree of sales volume. The Johns-Manville Company maintains a branch office in Buenos Aires¹ which sells its products exclusively to wholesalers. This

¹ Interview with Mr. S.D. Olson, op. cit.

office handles the sales of products which the Company subcontracts in Argentina, as well as goods imported from the United States. The wholesalers to whom the branch sells are of several types. The insulation and acoustical products are distributed through wholesalers of construction goods, while linoleum and its allied products, through hardware wholesalers.

Manufacturers of specific types of machinery will, as a rule, attempt to sell directly to the consumer. In such a case the number of potential customers is not so large that they cannot be properly contacted by the salesmen.

The organization of the branch office, established for the purpose of gaining sales, does not differ widely from a sales department of a company in the United States. An office manager is in charge of all sales and the proper management of the office. He controls the staff of salesmen and determines the territories of each and the methods to be used. He must be thoroughly acquainted with the three main principles of selling - knowledge of the product, sales¹ technique, and the market. This knowledge is a combination of training and actual experience in the country in which he is operating. Information on the product and sales technique can be gained most readily at the home office or plant. By working as an assistant in the sales department for a sufficient period of time, the future foreign branch manager can gain the required knowledge of the product.

¹ Heubner and Kramer, "Foreign Trade Principles and Practices," D. Appleton and Company, New York, p. 260.

The third, that of the market, must be learned in the country in which he is to work. This is actually the only completely suitable method of understanding the various customs and problems in business which are peculiar to that country.

The relationship between the home office and the branch naturally varies with the company. Generally the manager of the branch is given a free hand in conducting his sales, and the success of the undertaking is measured by the volume of sales. However most companies have established definite broad policies which must be followed by all branches. These may concern credits, prices or methods of distribution, but beyond this broad policy the manager is responsible for successful operations. There is usually a periodical auditing of the books but some concerns allow the manager almost complete discretion in the handling of funds.

Branch offices, however, are not concerned solely with the actual sales of goods. Many additional functions are carried on. When the product is of a standard type, it is often possible to maintain a supply on hand¹. This is an effective sales feature since a product capable of being delivered to the customer within a few days can be sold more easily than when the customer must wait for delivery from the United States. However the increased costs caused by the storage and insurance of products kept on hand, must be added to the sales price. Frequently concerns will

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Hough, B.O., "Practical Exporting," Johnson Export Publishing Company, New York, 1921, p. 309.

quote two prices, one on goods delivered from the local warehouse and the other, lower than the first, on goods shipped directly from the United States. The needs of the consumer will then govern which type they desire to purchase. Actually, because of competition, the maintenance of stocks on hand is becoming a necessity. In certain fields the practice is common to all companies selling those products, and the customer has learned to expect immediate delivery of orders. Consequently a company desiring to receive a share of the orders in that particular market must keep products on hand. There is also, however, the risk of loss due to a drop in the price of stored goods. This may also be taken into consideration when pricing the goods.

Often in the case of machinery, a repair station may be established to service equipment already sold. There is a sales advantage in offering such service to customers and it is especially important when repeat orders are desired. A branch office with an efficient service department has a distinct advantage over a competitor with no such service offered, and can frequently command a higher price for its products. Often, as mentioned in the previous section, the expansion of the service depot has led to the establishment of assembly or simple manufacturing operations which might possibly further develop into a complete local manufacture.

There are also more intangible functions of the branch office. It is an excellent source of information to the

manufacturer of market conditions, product acceptance future demand, etc. It is important for the manufacturer to have a reasonably accurate estimate of the future demand for his product so that he, in turn, may determine quantities of materials to purchase and schedule future production. He must have some representative who can give him reliable information. Although manufacturers' agents are frequently required to provide such data, it is seldom as complete and exacting as that supplied by the branch of the company. A good manager is also invaluable in making suggestions as to new products which might have sales appeal and trends in styles of products. The latter point, that of style demand, is an important consideration. It is only possible to determine the demand when one is actually on the scene since the trend is rarely similar in different countries. Much of the risk of over-supplying or even under-supplying can be avoided by a careful study of such trends. Knowledge of market conditions is important to the success of export merchants. Such export houses maintain branch offices in all the foreign markets in which they trade as a primary source of such information as well as a sales organization.¹ The supply of stocks on hand in the country or area, prices and actions of competitors must be relayed to the home office before they can make accurate decisions on the purchasing power.

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Interview with Mr. C.C. Crusius, Manager of Division of Pulp and Paper Mill Equipment, Lyddon and Company, America, December, 1946.

There are, of course, disadvantages in distributing goods through branch offices. It is true that the overhead is greater than would be encountered by an agent, and often a loss must be sustained in the first few years of organization, during the period that the market is being developed. However, in most cases, the companies which have survived these early losses, have been amply repaid by gains or profits in later years when the organization is functioning more smoothly. The agent has a lower overhead mainly because his sales coverage is less complete for each article handled since he must promote many other products as well.

Branch offices whose policy is to distribute directly to retailers, will often antagonize local wholesalers who were previously handling the products of the company. Such ill-feeling may develop into stiff competition which will definitely curb the profits of the branch. However if the policy is believed to be the soundest and will, in the long run, prove to be the most profitable, it should be promoted.

The risk of a price drop on stocks carried on hand, as previously mentioned, is also a disadvantage, although as a service to the customer it must be maintained.

The trend toward branch offices, however, is rapidly¹ increasing. More and more companies are finding it

¹
Interview with Mr. Donald Schive, op. cit.

profitable to carry out the distribution functions themselves. Perhaps it is due to the belief that one can do the work better himself than he could have it done by entrusting it to others. Proof of this trend can be seen by studying the statistics of American distribution in Argentina. At the end of 1940 there were twenty-eight individual American distribution organizations, not considering those¹ connected with American branch factories in Argentina.

In comparison there were only thirteen separate distribution organizations in Chile and but nine in Peru.

¹
"American Direct Investments in Foreign Countries,"
op. cit.

CHAPTER II

INDIRECT METHODS

The preceding chapter was devoted entirely to the direct methods of distribution. In addition to what has already been said on The Export Department in which the company organizes for foreign trade, there is a further step necessary in the completion of the distribution function. The Branch Office is the direct method of completing this function. In such a case the company maintains complete control from the manufacture to the sale to the retailer or wholesaler.

However there is a vast majority of the exporting concerns which do not have a great enough sales volume within each market to afford such an office. The solution to this problem is the distribution of commodities through an agent or through export houses. These indirect methods of distribution are the subject of this chapter.

1. Manufacturers' Agent.

The first of the indirect methods and perhaps the most important as far as total number of exporters is concerned is the Manufacturers' Agent. An American manufacturer wishing to establish a market in a foreign country, without assuming the expense and tremendous risk of setting up a sales organization in that country, may secure the assistance of a sales agent, located in Argentina, with a thor-

ough knowledge of the methods and customs employed in selling the manufacturers' type of goods. Obviously the success of the entire venture depends upon the careful selection of an agent.

Actually there are two types of agents, classified according to the country in which they are located. First there is the manufacturers' agent located in the United States with a distribution organization consisting of wholesalers or retailers in each of the countries within his sphere of authority. Although he is generally located at the seaboard, he must make frequent trips to his foreign markets to maintain adequate outlets, study the demand for his goods and future trends.

Secondly, there is the foreign resident agent located in the country in which the manufacturer is conducting sales. This is the preferred type of agency agreement since it results in more complete coverage of the market, and the majority of companies using the manufacturers' agent as a form of distribution will contact only resident agents.

The agent in Argentina is generally a native of that country. This is advisable since the wholesalers or retailers with whom he conducts business are more apt to purchase goods from a fellow citizen. Also, an important method of stabilizing sales volume and obtaining repeat orders from customers is the building up of a close personal freindship with the customers. This can be accomplished more easily by the natives of the country, since

foreigners are not as quickly and completely accepted.

There are many methods of obtaining and dealing with distributors in Argentina that differ from those in the United States. An agent sent from the United States would not be able to learn these different customs in a short time but would be compelled to spend years in the country before gaining the experience which the native agent already possesses. Many exporters could not afford to spend so much time in building up a satisfactory market.

The agency type of distribution is particularly adaptable to small American companies selling goods in a relatively small volume. The companies' organization may not be strong enough in the United States to sustain any great losses in foreign trade, and thus cannot afford to take on the risk of either establishing their own sales office or constructing a branch plant. Also, the total volume of sales may not be great enough to support such an organization. The value of an agency in solving such a problem is in the fact that one such agent can carry the products of several manufacturers and thus make a sizeable income from the total of all these products handled. This income would not be realized if he carried only one or two items. The result is a profit to all concerned.

It would be difficult to enumerate exactly the methods, functions and duties of an agent in Argentina today. Each agency varies with the nature of the product or the agreement set up in the contract. Generally they accept and sell

goods on consignment, that is to obtain the goods from the exporter and sell them to the buyer without taking title to them. Thus the exporter does have the risk of being responsible for the goods in transit. There are cases, however, where the agent receives and takes title to the goods but these are not in the majority. Frequently, an agent will warehouse goods on consignment for future sale. This is being done to a greater degree than previously because of a competitive condition. Prior to the war, the buyers in Argentina were becoming more and more accustomed to having goods at their immediate disposal, and the agent was in an unfavorable selling position if he could not give such service. This, however, was only true of articles of reasonably low unit cost and high volume. The Dennison Company's ¹ agent, for example, had to maintain stocks if he were to obtain any sales at all, since the products sold, paper supplies and paper specialities, were made locally and imported from other countries. With such a competitive situation a customer who could not obtain goods immediately from one company could readily buy it elsewhere. The Dennison Company's agent thus had to keep a sizeable stock of items which were standard and used by many companies. This included only a small portion of their many items produced, but was enough to compete favorably with other suppliers in the paper products line. They must, however,

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Interview with Mr. Philip B. Hamilton, op. cit.

have control of these stocks on hand since they may represent for some companies a relatively high investment. If the maintenance of a large stock is demanded it often necessitates an increase in the price of the goods to cover this investment. It is not possible to state that an agent in general does or does not assume any credit risk. Some do and others do not. Nevertheless, even if the agent does not assume any risk, it is often his responsibility to decide on the credit reputation of a prospective customer. Many exporters have an agreement in which the agent is not responsible for payment by the customer unless that customer definitely had a poor credit reputation which the agent should have known existed before the sale was consummated. In such a case the agent must make good on the payment.

Agents receive compensation in proportion to the volume of sales. This practice is almost universal and is the only practical way of assuring an adequate sales volume. The amount of his commission varies with the nature of the product and the amount of sales effort required. The agent for the Saco-Lowell Company, manufacturers of textile machinery, receives five percent of the invoice value,¹ while that of the Dennison Company receives ten percent.² The reason for the difference in commissions in these examples is easily understood when one considers the fact that the

¹ Interview with Mr. E.B. Walker, op. cit.

² Interview with Mr. Phillip B. Hamilton, op. cit.

the total annual sales of Dennison's which averages about \$60,000, is but a fraction of that of the sales of the Saco-Lowell Company in a normal year.

A commission of ten percent is quite reasonable even with a yearly sales volume of \$60,000, when all the factors are considered. Dennison Company again affords an excellent example. The overhead and fixed costs of its agent are relatively low. The office need not be a spacious "dressy" place since at least ninety eight percent of its business is contracted away from the office by its salesmen or by telephone. The remaining two percent or less which is conducted in the office is sales to old customers who are personal friends of the agent and do not have to be impressed by a luxurious office. The staff consists of five stenographers and clerks in the office and fourteen salesmen on the road. These expenses can be adequately met by the agent since he handles nine other products which are allied with Dennison's products. Thus a staff of fourteen salesmen can easily cover the territory since the sale of the complete line of the goods may be promoted in a call to a single customer. All the items are handled by the same wholesalers and jobbers to whom the agent sells, and the number of the calls which must be made by the salesmen are not excessive.

An interesting note on the advantage of the manufacturer's agent is the development of Dennison's sales organization in Argentina. When the company began trade in this country

they established a branch office with an American manager and Argentine salesmen. The income of the office fluctuated radically and at times it was not self-supporting. These fluctuations were mainly attributable to the Government restrictions on imports which, then, necessitated severe price changes. The items which Dennison produced were easily manufactured domestically and there were many other foreign countries in the market. Each of these groups, either by pressure methods or by graft, managed at different times to obtain import legislation which was favorable to their group at the expense of the others. When these restrictions were unfavorable to the Dennison Company, the returns on sales were frequently not sufficient to cover its fixed costs. Although there were other periods when conditions were to their advantage, the management felt that it could obtain the same sales volume with less expense and risk if it discontinued the branch office and distributed through an agent.

There are many companies that consider it especially advantageous to maintain a high sales volume in dealing through an agent who carries a selection which is complete in one particular line. The Jaeger Machine Company manufactures compressors and similar machinery used in construction work. Their agent in Buenos Aires handles a complete line of con-

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Interview with Mr. R.F. Burns, Export Manager of Jaeger Machine Company, Decemner 26, 1946.

they established a branch office at the American Consulate
and Argentine Consulate. The names of the office listed
national and at times it was a well-known. These
listings were being maintained by the Government
provisions in reports which, then, indicated severe
price changes. The price which American products were sold
it indicated occasionally and there were many other for-
eign countries in the market. One of these groups, which
of products made up by itself, consisted of different items
to obtain import legislation which was favorable to their
growth at the expense of the others. When these restrictions
were unfavorable to the American Company, the returns on
sales were frequently not sufficient to cover the fixed
costs. Although there were other parties when dealing
with the foreign markets, the management felt that it could
obtain the same sales volume with less expense and that it
it demonstrated the American office and distributed through
an agent.

There are many companies that consider it expedient
to maintain a high sales volume in dealing
through an agent who carries a reputation which is considered in
the American market. The latter American Company, however,
considers and wishes to maintain a high sales volume in the
local market in order to obtain a complete line of pro-

1
Interview with Mr. J. J. Jones, Export Manager of American
Company, December 22, 1933.

struction equipment, none of which competes with those of the Jæger Company. The agent has established a reputation of having all types of good machinery and contractors are able to obtain everything they want from him in preference to four or five different sources. Also the Jaeger Company knows that their products are being promoted as well as the others since all the machines handled by the agent are needed in the construction industry.

Many types of goods sold through agents are of too technical a nature to be adequately promoted by an agent, yet the volume is not great enough for the company to maintain its own staff. The Saco-Lowell is in such a situation.¹ They have solved this problem by supplementing the agent's lack of technical information on textile machinery with company engineers. These trained men who work with the agent are on the company payroll and assist him in selling the machinery. The agent handles the contacts, contract details and advertising, while the engineer gives the prospective buyer all the data on the capacity, advantages, cost, running expense and such other information which may be needed in deciding whether or not to purchase the machine.

a. Exclusive Agency.

The majority of companies dealing through an agent have an exclusive agency agreement. In such a case the exporter

¹ Interview with Mr. E.B. Walker, op. cit.

agrees that he will not sell goods to any individual or firm other than the agent within the territory specified within the contract. This, generally, is a very satisfactory agreement although great care must be taken in the selection of the proper agent. If a poor representative is chosen there is no other way in which sales in that territory may be obtained, since the exporter has agreed to transact business solely through that agent.

The exclusive agency method of distribution appeals most strongly to exporters of products of large units such as industrial machinery. Where the price per unit is high, the exporter is in a more favorable position if he has an exclusive contract with an agent who will assume the responsibility for the sales and will render satisfactory service. He must, however, give the agent sufficient territory so that his income from sales will be worth the effort. The total volume of sales is not likely to be large enough even in a sizeable territory to support many agents, and the number of prospective buyers to be visited periodically is not more than can be handled by one agent.

The low cost unit that has a well-known brand name is also adaptable for sale by an exclusive contract. The agent is willing to offer aid in advertising and sales promotion since the returns for such aid are to his benefit and not shared by others. The exporter also has a more complete control over the action of this one agent since factors which are destructive to a good reputation, such as sale of old

or damaged stock or the use of exorbitant prices, are more easily avoided.

In many instances the exclusive agency is looked on as a step toward the appointment of a representative in the employ of the exporting concern or the establishment of a branch office.¹ Although it is generally assumed that the exporter contracts with the agent only for a period which will give him time to build up a sales volume, the conversion to a branch office should be done with considerable caution. Often a demand which appears to be stable from year to year may not continue to be steady when the manufacturer's manager assumes the sales duties. As mentioned previously, the agent may have close friendships with the buyers and unique methods of approach for sales which the manager for the employer may not be able to continue. On the other hand, the agent receiving a commission for his sales effort may not fully promote sales, fearing a reduction in the commission rate if the volume becomes too great. Also he may wish to keep the sales volume down in order to postpone just such an act of converting to a branch office.

In any event it is advisable, when changing to a branch sales office, to maintain the friendship and cooperation of the agent as much as possible. This can often be done by allowing the agent certain concessions and preferences in

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"Exclusive Sales Agreement in Foreign Trade," Trade Information Series # 45, Department of Commerce, Bureau of Foreign and Domestic Commerce.

future business dealings, giving him ample forewarning and treating him with every possible liberality.

There are cases where the term exclusive sales agency is true in title only and not in the actual business relationship. This is caused by an infringement of the territorial rights of the agent. It is the responsibility of the principal to protect the agent's rights to the best of his ability. Such infringement may occur in three ways: First, by the direct sale by the manufacturer to other distributors in the agent's territory. This, of course, is most unethical and occurs only in cases where the exporter is definitely dishonest. Secondly, by the sale of goods by agents in contiguous countries. It is more difficult to control the actions of agents, but by requiring that the final destination of all products be given to the exporter, he can protect his exclusive agents in all territories. Thirdly, by the exportation by domestic distributors, export commission houses or merchants. This third way is the one most difficult for the principal to control. All sales to commission houses and export merchants should be made with the stipulation that they will not be sold or resold in the territories covered by the agents. This agreement is usually effective but any violations of this, discovered most often by the agent, will result in cessation of business dealings with the export house.

Domestic distributors are not often in a position where they can favorably compete with the agent in Argentina. The

agent generally receives the same sales price as the distributor in the United States, and any quantity discount which might be gained would not be greater than the expense of obtaining a sale. However there are times when it can be done profitably and the manufacturer must be constantly on the look-out for such violations of sales contracts.

Many times various government agencies and large independent concerns wish to purchase goods on a quantity basis, but do not want to pay the higher price of buying through an agent. In such instances the orders are sent directly to the manufacturer's plant in the United States. The question then arises as to what commission the agent should receive. The contract should definitely cover such cases in order to avoid serious disagreement. There are various solutions to such a problem: either the agent receives no commission, since there was no sales effort on his part, or he can be paid a full commission because the sale was made in his territory. A third possible settlement would be the split commission. For example the agent might be paid a percentage of his usual commission on all sales received directly from the purchaser by the exporter. This is done, in most cases, with orders from the government, bringing in less commission to the representative.

There have from time to time been agents holding an exclusive contract with several principals, each of which produces competitive items. Many of these agents have been open

and aboveboard stating that the exporters can have no objections to this practice, if the price of one item is too low for one of the principals to accept. This, naturally, brings about ill feeling and may even lead to court action as to just what constitutes competition. If, for example, two similar machines were priced several dollars apart and sold by the same agent, there would be the problem of deciding the exact point in the price variance whether the goods were or were not in competition with one another. Such misunderstandings are the fault of the American exporters themselves. For some inexplicable reason certain exporters jealously guard the names of their agents, and as a result of this needless secrecy it is possible for the agent to "load up" with exclusive agency agreements of companies in the same line, which in turn, has an unfavorable effect on the American export business.

b. Contract

The success of the export-agency relationship depends to a great extent upon the completeness of the contract. Since the agent does not purchase the goods for his own use but for resale to wholesalers or jobbers in Argentina, it is necessary to impose on him certain restrictions with regard to such resale in order to protect the trade of the exporter. Each contract should, whether exclusive or not, include express stipulations on credits, acceptances, repurchase, disposition of old stocks and other such features which bear strictly on the sale or distribution of the merchandise.

Thus these stipulations represent a contract between the agent and the exporter for doing business, as distinguished from a contract for the sale of goods. This is important because, while it may be impossible to rescind a contract for the sale of goods after performance, it is always possible to revoke the agency for failure to carry out the provisions in the agency contract.¹ It is always advisable, in order to protect the exporter from damages as a result of cancellation of the agency, to provide specific violations which may be considered cause for such cancellation.

There are four specific reasons for a formal contract.² First it commands greater respect from the agents. The belief that he represents an efficient, reliable company may promote the agent to greater sales efforts. Secondly, it furnishes a convenient index to the rights and liabilities of the parties. There will be less dissatisfaction and more complete cooperation if the duties and authority of each party is clearly defined. Thirdly, it possesses greater evidential value in case of litigation. Disagreements in exporter-agency relationships are bound to arise, but these may be more equitably decided if there is a written stipulation covering the dispute. And finally, the contract may be more easily brought to the notice of third parties having dealings with the agent. These third parties would be more inclined to deal with an organization which has its functions

¹
"Exclusive Sales Agreement in Foreign Trade," op. cit., p.3.

²Ibid.

and limitations defined, and where there is less danger of costly legal disputes.

Just what stipulations should be included in the contract depend upon the type of relationship desired, the specific issues which are liable to cause disagreement and the nature of the product. Some general agreements which should¹ be included in almost all contracts are:

1. There should be some provision for interest due from the agent on overdue remittances and on overdue payments guaranteed by him.

2. It is the duty of the agent to inform the principal (the exporter) immediately, if the latter's goods or assets are threatened by the suit of a third party or by attachment proceedings. It frequently happens that, when such suits are made against the principal, he is not notified from official sources until the case is in court because of delays in communication via government officials and consulates. Thus notification by the agent is important.

3. Title to the goods should remain with the consignor and merchandise is also to be under the direction and control of the consignor.

4. Payment for sales by the agent to the principal should equal the total proceeds of the sale minus the difference between the invoice value of the goods consigned to the agent,

¹

"Agency Agreements in Foreign Trade," Trade Information Bulletin # 70, Department of Commerce, Bureau of Foreign and Domestic Commerce, p. 5.

and the price at which it was sold. This selling price should be a definite percentage above the invoice price. By stating the amount of the remittance in a manner similar to this and not simply stating "minus commission of consignee", the principal is protected from loss incurred by the agent's selling more cheaply than the established price.

5. Where the type of insurance on goods requested by the principal is not commonly used, (earthquake, hurricane, etc.) it should be specifically defined.

6. There should be a definite limit as to the extent to which the agent may make guarantee on goods sold in the name of the principal.

7. An arrangement should be made limiting the amount of extraordinary expenditures by the consignee in the name of the principal for such items as preservation, care and custody of the goods.

8. An annulment or cancellation clause should be included giving the principal or agent the right to cancel the contract upon proper notice, usually a period of from thirty to ninety days. This is especially important when the contract is that of an exclusive agency since it gives the principal protection against inadequate sales coverage caused by an unsatisfactory agent.

9. Since the Argentine law states that depreciation of goods after they come into the hands of an agent are chargeable to the principal in the absence of a specific agreement,

the principal should attempt to include a stipulation as to the manner of inspection and the party inspecting the goods. Also all abnormal depreciation and deterioration expenses (generally above five percent of invoice value, although this would depend upon the nature of the goods.) should be at the expense and risk of the agent.

10. Rather than merely stating that the "principal will pay the duty", it should be stipulated that the duty will be paid by the agent for the account of the principal. This will avoid delay and damage caused by the goods lying in customs awaiting the arrival of payment by the principal.

11. It is advisable to require a detailed report periodically from the agent on explanations of sales volume and reasons for the lack of greater acceptance of the product in the market.

12. A clause might be entered stating the method of dividing excess profits when sales are made at prices higher than those mentioned in the contract.

13. Although not always effective, it is frequently wise to include a statement that the laws of the state of the exporters domicile shall rule in the interpretation of the contract.

The use of formal contracts in agency agreements is becoming increasingly popular, and is an important factor in the widespread use of manufacturers' agents as a method of distributing products in Argentina.

the principal should be held to include a stipulation as to
the manner of investigation and the party investigating the goods.
Also all material investigation and investigation expenses
(generally above five percent of invoice value, although
this would depend upon the nature of the goods) should be
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10. Further than merely stating that the "principal will
pay the duty", it would be stipulated that the duty will be
paid by the agent for the amount of the principal. This
will avoid delay and expense caused by the goods lying in
customs awaiting the arrival of payment by the principal.
11. It is advisable to require a detailed report period-
ically from the agent on sales volume and
reasons for the loss of greater quantities of the goods
in the market.

12. A clause might be added stating the method of
settling export profits when sales are made at prices high-
er than those mentioned in the contract.
13. Although not always effective, it is frequently wise
to include a statement that the loss of the value of the ex-
ported goods shall rest in the investigation of the
contract.

The use of formal contracts in agency agreements is es-
sential in international trade, and is an important factor in
the successful use of international trade as a method of
distributing products in foreign markets.

2. Export Commission House

The export commission house occupies a very important position in foreign trade. Although it is true that its importance is not increasing and its function is gradually being replaced by more direct methods, it is also true that there are many manufacturers in the United States that would be incapable of trading with foreign countries were it not for such commission houses. Export houses will continue to maintain a place in world business even if their relative position diminishes.

Technically speaking the export commission house is regarded as a buying agent for foreign customers.¹ That is, the customer in Argentina who wishes to obtain American goods but has no contacts with manufacturers may purchase through such a house. In recent years, however, the commission house has also added the function of serving the American manufacturer in the sale of his goods in foreign countries. Therefore it is possible for a house to receive a commission from the buyer for handling the purchase of commodities and from the manufacturer for the sales of his goods. Obviously, for ethical reasons, the two functions are never executed in the same transaction. For each individual business deal the commission house acts either as buyer for the foreign customer or as an agent for the manufacturer.

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Eldridge, "Exporting and Importing Practices," Foreign Commerce Bulletin # 160, Department of Commerce, p. 14.

a. Organization

Perhaps the best way to explain the organization and operation of an export commission house would be to trace¹ a sample order through the various departments. For illustrative purposes an order from a wholesaler in hardware in Buenos Aires will be selected. The order consists of many types of goods with a total value of \$500. This indent, the term used for the purchase order, may specify the maker or manufacturer of the goods desired or may merely state the requirements which must be met in completing the deal.

The order received in the export commission house passes from the mail clerk to the credit manager. It is his duty to determine the credit standing of the buyer and pass on the method of payment. The majority of indents will be from buyers who are old customers of the export house with a well-established credit standing, but there will be cases when the prospective buyer will be unknown to the house. There are many organizations, mentioned previously, where the credit ratings of Argentine concerns may be obtained. The terms of the sale must also be checked by the credit manager. The wishes of the customer must be consistent with the general policy of the company. If they are not, an adjustment of the order must be made.

It might be well at this point to differentiate between the methods used in assumption of credit risks. Either the

¹
Hough, B.O., "Practical Exporting," op. cit., p. 304.

manufacturer may assume the risk of payment by the foreign customer or it may be adopted by the export commission house. It is the general policy today for the export house to relieve the manufacturer of the responsibility of payment. However there are cases where the opposite is true, but the commission house has recently been forced to offer as many services as possible to the manufacturer, so the majority of them assume all the credit risks.

The next step in the process is the purchase by the buyer. If the indent does not state that the goods are to be obtained from a specific manufacturer, the buyer must "shop around" for products which can be bought at favorable prices and which meet all the requirements. Generally the buyer will have catalogues and price lists from manufacturers of products which are most frequently handled. From these, as well as from trade publications and manufacturers' salesmen, he can usually find a suitable maker from whom to purchase the goods. It is of primary importance that the buyer have a complete knowledge of the best markets. The success of the export house depends upon his purchasing products which are of better quality and at a lower cost than those of the competitors.

After the buyer has arrived at his decision he makes out orders for the commodities, which are sent to the manufacturer. Duplicates are made out for the accounting and shipping departments.

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Richards, C.A. "Export Houses," Business Training Corporation, New York City, 1916, p. 49.

The shipping department obtains the original order on all instructions pertaining to the packing, insurance and shipping of the products. The packing and shipping requirements are relayed to the manufacturers who use these as a basis for handling the order. It is then the duty of the shipping department to obtain freight space, either through a broker or directly from the carrier, and to obtain marine insurance on the entire shipment. As the time for the arrival of the goods at the seaboard nears the order must be checked to assure its delivery on the proper date.

In the meantime the accounting department is receiving bills from the manufacturer. The accuracy of these must be checked against the order shipped by comparing the bill with the original indent and the export house buyers' purchase order. The quantity, price and quality stated on the bill must comply with these original orders. Any discrepancies should be corrected, if possible, before the shipment leaves for Argentina. It is a general policy for most companies to take advantage of cash discounts which are given if payment is made within a given period, generally ten days.

All documents required in entering goods into Argentina are collected and, when the complete shipment arrives at the seaboard, are transferred with the invoice and draft to the carrier. The process within the export commission house is then completed.

The price which is charged the foreign buyer is generally the total of all the expense plus the standard commission, established by the company. The invoice contains a tabulated statement of the cost of the goods, plus cartage, freight, insurance, etc. The exporter's commission is then added to the total. This commission naturally varies with the nature of the commodity but, as a rule, ranges from two and one half to five percent of the total cost.¹ All discounts received by the export house are entered on the account of the buyer and must be deducted from the total cost. Frequently the foreign buyer will request that the original bill from the manufacturer accompany the invoice so that he may assure himself that he is receiving the benefit of cash discounts. There are cases where the buyer has the authority to inspect the books of the commission house² to further satisfy himself of the discounts received.

Export commission houses very often have branch offices with representatives situated in the important markets of the world. Generally the market of the house is concentrated in a particular area, such as Latin America or Australasia, since it would require a tremendous company to cover thoroughly the entire world market. Thus the branch offices are located within the company's sphere.

¹ Heubner and Kramer, op. cit., p. 187.

² De Haas, "Foreign Trade and Shipping," Alexander Hamilton Institute, 1919, p. 98.

These branch offices serve two main purposes: first, to interest prospective buyers in the advantages in purchasing through an export house, and to inform regular customers of additional products that would be a benefit to them; secondly, to act as agent for the American manufacturers which it represents.

A commission house which sits idly by waiting for orders from foreign customers to come in would not long be participating in the export business. It requires constant drive from the foreign representatives to keep purchases from being handled by competitors. They must keep in close touch with the markets and customers and extend their circle of customers wherever possible. It is equally important that they watch the credit standings of their customers. Quite often signs of impending financial weakness may be noted by the representative long before it is discovered by the house organization.

The export commission house maintaining a branch office can use their representatives very effectively in carrying on sales efforts for the manufacturer which the house represents. Usually the rate of commission on the sale of such products is greater than that received for purchasing products for the foreign customer. The representative, having a thorough knowledge of the market and particular customers interested in such a product, can very effectively promote the sales of the manufacturer.

Often traveling salesmen are used by commission houses

in markets which are not large enough to support an office. Their purpose and duties are the same as those of the branch representative, although their effectiveness is not as great. There is usually a financial arrangement between the manufacturer and the export house, each paying a share of the salesmens' expenses.

Many houses which deal primarily in machinery will maintain repair depots to handle goods which they have sold. This is in conjunction with the branch office and the extent to which it will be done depends upon the size of the market and the volume of sales. These depots are becoming increasingly important, advancing most rapidly in times of strong competition.

b. Advantages

There is still much prejudice against commission houses, claiming that they are "parasites on our export trade".¹ Others exaggerate their importance or necessity in the adequate extension of trade into foreign lands. It would be well at this point to state the advantages to a buyer in Argentina in trading through a commission house.

Considering the buyer again as a wholesaler in hardware in Buenos Aires, he, in all probability, purchases much of his stock from the United States. In many cases he may know the specific manufacturer of many of his items and could possibly deal directly with him. However the chances are that in a month's time he may have to send out orders

¹
Hough, B.O., "Practical Exporting," op. cit., p. 288

to fifty different American concerns. This means fifty different order blanks to be filled out, fifty addresses to send to and fifty separate bills to pay. The cost of this might in itself be greater than the commission paid to an export house. Then there would probably be many items which he would not be able to locate and obtain. He is not in a position to determine correctly which of the many manufacturers in the United States have the best price and the highest quality. It might be that those names that he has as possible suppliers of hardware are not the most reasonable sources. In order for the export house to survive, it must have the best suppliers of all the commodities which it handles. As a rule it has taken years to locate the proper sources where it can get the lowest possible price. Thus there is a savings to the buyer in Argentina.

The shipment also represents another savings to the buyer. Rather than fifty individual shipments, the export commission house combines these into one large order. The result is reduced freight costs which directly benefit the buyer.

Also, since the buyer is known to the commission house, he can better obtain credit terms than he could if he dealt directly with the manufacturer. This is an important consideration since it is generally true that the businessman in Argentina expects longer terms than is the custom in the United States.

There are also advantages from the manufacturers' viewpoint in dealing through an export commission house. In cases where the export house assumes the credit risk the producer has only the domestic risk of being compensated by the house. Such a credit situation is very simple to determine and once established will, for the most part, remain the same. Thus there is not the trouble of expense of inspecting the credit standing of each individual customer.

The manufacturer has no overhead to include in his sales price. All expenses in clerical work, sales and translations are assumed by the export house. Also he need not be bothered with studying the details of making up a shipment. All information on packing, addressing and shipping are relayed directly from the house.

So effective and complete are the services offered by the commission houses that frequently manufacturers, upon direct receipt of an order from a foreign buyer, will refer¹ them to the export house and let them handle the details.

It is difficult to state definitely which products or types of products are handled most frequently by commission houses. Staple commodities are adapted to this method since the amount of detail work is low, but the commission is also correspondingly low. Other commodities such as manufactured goods are often handled through such houses, yet the detail work is great. In such cases the commission must be higher

¹
Kidd, H.C., "Foreign Trade," Prentice-Hall Inc., New York, 1929, p. 339.

than with staple commodities.

It may be definitely stated that there will continue to be export houses as long as the United States engages in foreign trade. The character of their business will undoubtedly change, as it has in the past, but the basic ideas will remain.

3. Export Merchant

The export merchant, which is the third of the indirect channels of distribution, has a much longer history than the preceding methods. It dates back to the days of the ancient Phoenicians who made long perilous voyages through uncharted waters in search of spices and luxuries. Such risks were well rewarded since the profits gained from the sale of these products were exceedingly high. Thus it has been the merchant, or as known today the export merchant, who has played an important part in the opening up of new markets. Although there is little opportunity today for the "discovery" of new markets, the merchant still has a part in their development.

The basic principle of the export merchant is still similar to that of the ancient merchant - the purchase of merchandise where it can be obtained most cheaply, and its resale to foreign customers at an increased price. However with the changing times, the export merchant has had to adapt his principles to the competition of modern methods. More and more services must be offered and many times the merchant finds it necessary to use the same policies as his competitor. Thus it is difficult to cite a company which has

remained a merchant in the strict sense of the word. It is often advisable to usurp the functions of a commission house just as there are undoubtedly few commission houses that do not, on occasion, act as export merchants. Nevertheless the two generally retain their chosen policies and depart from them only as conditions demand.

It is natural to assume that the export merchant, purchasing products, that is taking title to them and reselling them in a foreign market, must have a very thorough and complete knowledge of the sources of supply as well as the demand for the products in which he specializes. The success of the house depends primarily upon the ability to purchase this merchandise at the most opportune time and at a low enough price that they can be sold in the market in competition with other companies.

The speed with which a request from a buyer may be handled is an important factor in favor of the export merchants. Often an offer can be received, considered, accepted and processed before a commission house has acted upon its indent. This can only be accomplished by maintaining an up-to-date record of all the prices, supply and specifications of the many types of goods which are handled. The executives responsible for the purchase of the products must have a thorough working knowledge of each article and all the factors involved in their purchase and sale.¹

¹

Interview with Mr. C.C. Crusius, op. cit.

The acceptance of risk is an integral part of the export merchant's functions. This includes the risk involved in obtaining payment in return for purchase as well as the purchasing of products prior to the receipt of an order. Export merchants frequently maintain stocks of articles which, in their opinion, were purchased at a more favorable price than will be offered in the future. Such speculation results in profit if the forecasting is correct and losses if incorrect. In any event the returns on the investment must compensate for the risk taken. Although the well-informed, sound merchant house in the long run usually operates at a fair profit, it is only rarely that a company can look back over a long series of such ventures with no losses resulting from incorrect estimations.

The majority of merchant houses are organized in one of two manners. One is based on the territorial division of the markets. The house may be departmentalized according to the individual country or group of countries which make up the total market. For example one company might consider Argentine and Brazil as separate departments. Another concern might include the entire east coast of South America as one department and the west coast as another. The division will naturally depend upon the size of the total market, the individual markets, and the nature of the products handled, that is, the volume and promotion required. It is believed by the advocates of this method of administration that the specialization of knowledge acquired in

dealing with a limited area is invaluable in avoiding mistakes which come about through ignorance of the regulations of these areas. For example, Argentina has laws and regulations governing importation of commodities. Tariffs vary with the types of packages and classification of commodities. Forms must be absolutely correct when presented to the customs authorities. Marking must include specific information and be of a certain stipulated size. Failure to carry out accurately such requirements results in penalties which at times may be very severe. This can often be avoided by having personnel in the home office that are trained and up-to-date on all the special regulations that must be known when shipping to Argentina. It is natural that there would be fewer mistakes if the personnel have specialized in Argentina, than if all countries were handled by the same people.¹

The second method is the organization based on the specialization by products. Concerns handling a technical product must have personnel that know completely the items which are handled. It is believed to be important for an export merchant, which must purchase intelligently in order to survive, to have specialists in the products rather than specialists in particular areas.² It is less difficult

¹
Fowler, John F., Vice President, W.R. Grace & Company "Export Merchants", Export Houses, Business Training Corporation, New York City, 1916, p. 65.

²
Interview with Mr. C.C. Crusius, op. cit.

to instruct a person in the various import regulations of a country than in the technical aspect of an intricate machine. Therefore each particular group of allied products are segregated into departments and each of these divisions will be concerned with the purchase of their group of products. This is, perhaps, the more favorable method when dealing with equipment and machinery of a highly technical nature.

In most instances the organization of an export merchant house includes the maintenance of branch offices abroad. This is an important part of the company since it is a direct source of information for the export house. One of the branch office's main functions is the maintenance or warehousing of stocks which the house has purchased in advance of sales. The branch should aid in the determination of what products are most required on short notice and consequently, which ones should be kept on hand. It is important that excessive amounts of any commodities are not stocked since this ties up the working capital, a condition which definitely curtails the activities of the entire concern. There is a tremendous sales advantage in maintaining stocks on hand and it is becoming increasingly necessary in many lines to carry such stocks. The buyers are beginning to expect prompt delivery for many articles and the concerns that have them on hand will generally obtain the sale.

Reports on the activities of competitors and the general

economic condition of the country are sent to the home office, in the United States. A branch office in Buenos Aires can visualize more clearly Argentine demand, purchasing power and supply of goods on hand, the future of these as well as the tactics and position of competing companies in that country. It is necessary that all this data be known by the home organization if future business plans are to be carried out successfully.¹

The branch house, however, is not merely an information station. Each office is generally staffed with salesmen who promote products which the merchant sells. There must often be considerable sales effort made if an adequate volume is to be obtained. Prospective buyers must be shown the value or advantage of purchasing new products and the saving in buying through a merchant. Although the financing of salesmen is done at the expense of the export house, there is sometimes an agreement with American manufacturers whereby they assume a portion of the expense.

Branch offices also aid in taking over the technical details of receiving shipments. Most goods are invoiced directly to the buyer but there are occasions when the branch will receive the goods, clear them through the customs and relay them to the buyer. The branch also presents the drafts to the buyers for acceptance and supervises the payment. In the event of non-payment of drafts branch offices are in a

¹

Heubner & Kramer, op. cit., p. 189.

more favorable position to obtain eventual payment than would be the American concern. By being on the spot they can bring more pressure to bear on the debtor and, if necessary, obtain a court settlement more promptly.

Disputes frequently arise concerning the quality or condition of goods received by the buyer. The branch office can personally cater to these complaints and often settle them in such a way that a buyer remains a customer of the concern and does not through dissatisfaction turn to another supplier.

The ability of the export merchants to obtain freight space at the lowest possible rates is an important factor in their success. The close alliance between the merchant and the carrier often permits the merchant to ship goods at a time when independent manufacturers cannot obtain space. This is another service which is much appreciated by buyers desiring goods for immediate delivery.

There are, however, disadvantages in trading through export merchants. The first is concerned with sales coverage. Many manufacturers feel that a merchant handling numerous products cannot promote his goods as advantageously as could an agent. The agent with but a few products can devote practically his entire time and effort to the few commodities in his line. Thus if the agent has an exclusive contract in Argentina, the manufacturer is not permitted to sell to a merchant who intends to resell in Argentina in direct competition with the agent. Manufac-

turers also feel that when they reach a certain volume of trade in Argentina it is more economical for them to establish their own branch office and thus eliminate the margin received by the merchant. This, however, has many times proven unsuccessful and the manufacturer realizes that he cannot operate as efficiently as an experienced export merchant. The manufacturer, however, cannot depend upon a stable demand for his product when dealing through a merchant. If a competitor offers a slightly lower price, greater discount or additional service, his entire sales to the merchant may be discontinued. This would not be generally true with an agent who has his regular customers buying from him because of habit, a personal friendship or because he offers additional services over those of the manufacturer.

Although the export merchant has had a long, successful career, its importance in present day business is declining and is gradually being absorbed by the more direct methods of distribution. However there are still many merchants with high annual volume of sales which are permanently established in the export field. There is a great enough number of such successful companies to justify the belief that the export merchant has a valuable place in our foreign trade.

CHAPTER III

TECHNIQUES

The first two chapters of this treatise have been devoted to the various channels through which goods are distributed in Argentina. It is the purpose of the third chapter to describe the technical aspects of marketing American products. There are many varied methods of conducting the functions outlined in this chapter, and few companies have identical policies in all cases. However those which are illustrative of the majority of exporting companies, whether they be large or small, have been chosen as the most representative solutions to the problems of exporting to Argentina. Certain fields such as, marine insurance, transportation and the details of foreign advertising have been omitted, because they are only indirectly associated with the marketing problem.

1. Merchandising

The accepted definition of merchandising may be said to be the creation or selection of merchandise which will meet the needs, wants and desires of consumers. The problem of adapting the product to the market is in many instances more difficult in foreign countries than it is in the United States. Often goods which are manufactured by mass production methods in this country are not easily accepted by the consumer in Argentina. In such instances, a portion of the total output must be altered in certain stages of

production to conform with the buying habits in such foreign countries. This can be done without too great a loss in efficiency if a large quantity of the products requiring different specifications can be manufactured at the same time.

The General Electric Corporation is faced with a problem of this type.¹ In the United States electrical equipment uses either 220 or 440 volts, while in Argentina the standard voltage is 110. However there are many other foreign countries also using 110 volts so the Company periodically alters its productive processes for a certain length of time to concentrate on manufacturing equipment with this different voltage. Since the quantity produced at that time is large, generally six month's or a year's supply, there is not a large increase in the cost of production. A similar problem arises in the plumbing supplies industry. The Whitman thread used in Argentina, has an opposite twist from the standard employed in the United States.

Another problem of merchandising is the developing of new uses of the product or the extension of the present use to a greater number of people. An interesting example is cited in the experience of the Dennison Company. One of the greatest consumers of crepe paper in Argentina is the peon. These poor agricultural folk are, for the most part, self-sufficient and any spending which they do is general-

¹

Interview with Mr. E.B. Scherer, op. cit.

ly for things with which to decorate their homes. This consists of bright cloth and crepe paper which they use as a wall covering. The Dennison Company has obtained a high volume of sales by promoting such a use of their product.

Exporters have frequently found that it is more profitable to offer consumers goods for sale in small packages, since the resulting low price is within the field of more purchasers and a greater total volume can be attained. The size of each unit package should be studied carefully by the manager in charge of merchandising before the product is placed on the market.

The choice of color and design of the product as well as the size of the package is as important in Argentina in promoting appeal for the product as it is in the United States. Proper choice of these may only be learned by studying the desires of the people in allied products and later experimenting with one's own product.

Merchandising not only includes adapting the product to the market, but also adapting the consumer to the product. Educational programs often must be organized to teach the buyers the advantages and uses of the product. Washing machines, for example, have never been used to a large extent in Argentina. It is a difficult task to promote the product since most consumers who can afford these machines can also afford personal servants to do their washing by hand. However with the correct educational advertising the consumer, with the ability to purchase washers, can

be shown how much more satisfactorily the machine cleans clothes and how much more sanitary its operation. With such promotion the demand for this equipment can be increased tremendously.

The task of merchandising products is one that is never completed. Although a company may be satisfied with the volume of sales realized in a particular market, this concern should never be so completely satisfied that it is not willing to spend time and effort in improving the desirability of its product.

2. Sales Policy

Companies exporting to Argentina generally have established standard procedures for conducting successful sales operations. These procedures are the result of experience gained in attempts to find the "one best way" to export products.

There are many features comprising the sales policy of a particular concern. The most important is the determination of the most favorable method of distribution to be used. In formulating such a policy all the factors favoring and opposing each of the methods outlined in the first two chapters of this treatise must be considered. Although the same method may not be used in all countries, there will be a general policy for all countries with similar problems and equal sales volume. The actual establishment of the distribution organization should be standardized so that the experience gained in one country may

be applied to the development in a new market.

Sales policy is not, however, restricted to organization only. It should also cover the personnel problems of salesmen and office staffs, expenditures for advertising and sales promotion, the use of samples as a sales aid and the extent of coverage in each market.

The extent to which samples should be used is often a difficult question. It sometimes happens that when samples are given to dealers for distribution, they are sold rather than dispensed freely.

Exporting companies should also formulate a definite policy concerning correspondence. It is important that this be done since correspondence is often the only contact which the buyer has with the exporter. Therefore the letters which the buyer receives are the only direct means at his disposal of determining the reputation of this exporter.

A basic principle of correspondence is that every letter should be a sales letter. No matter what the subject may be it is always possible to instill in the mind of the recipient the belief that the exporting enterprise is one with which further relations are desirable. This principle should be recognised by every correspondent in every department, and no one should feel that he is to be excluded from this policy.

The form and appearance of the letter is also import-

ant. Argentine buyers are exceedingly impressed by high quality stationery with elaborate letterheads. It is often their opinion that expensive stationery is an indication of a reputable firm. It is also a matter of pride with the buyer that letters addressed to him be signed by an executive of the exporting company. Were it signed by a subordinate of the executive, he would feel that the letter lacked dignity.

Many exporters have conducted trade with foreign countries using correspondence as the sole means of promoting sales. Although the coverage of a given territory is limited, the capital investment and risk are at a minimum. There are no large overhead charges or executive salaries to be paid, the only costs being those of mailing lists, clerical fees and postage.

When writing to a customer in Argentina, extreme care must be taken to avoid any statements which may promote ill feeling. The distance is so great and the time elapsing between one letter and the next is often so long that what at first seemed only a trifling annoyance to the buyer can, in a few weeks, appear to be a major issue. Friendly relations that have taken years to create may be spoiled by one letter of mild reprimand for a short delay in payment or some such petty cause. For this reason most exporters establish the policy that all letters sent to foreign countries should be read carefully and signed by

an executive. Thus correspondence may be a successful selling aid rather than a necessary evil.

The sales policy will naturally vary according to the problems which must be met by specific exporters. In many cases the policy is not in an elaborate, recorded form, but, regardless of whether or not there is tangible evidence of a specific outline, all companies operate on some predetermined procedure.

a. Sales Promotion

Until several years before the War few manufacturers realized that the same sales promotion methods, which proved so successful in the United States, could be used with equal success on a large scale in foreign markets. Prior to that time, most exporters believed that the Latin American was entirely unlike the American and that similar promotion schemes would not appeal to both peoples. There has been an intensive revision of these beliefs so that today Coca Cola signs and Lifebuoy ads are almost as common in Buenos Aires as they are in New York.

However it cannot be correctly stated that the two areas are exactly alike and that copy which has proven effective in domestic advertising and sales promotion need only to be translated into Spanish to be profitably applied in Argentina. There are certain conditions which must be overcome prior to successful sales promotion operations and, in some cases, the "plan of attack" must be altered. The primary problem is the high degree of

illiteracy among the lower class consumers. In this case promotional plans must avoid the use of excess copy and testimonials and concentrate on developing a trademark which can be easily recognized by all classes of people. Products like Alka-Seltzer and Lifebuoy have been very successful in this type of promotion. Their advertising has been based on the promotion of the name of the product, employing pictures to describe the use and advantages of the product. Coca Cola's trademark is known by all classes of people throughout Argentina, and a sign merely stating the name of the product with a picture of its distinctive bottle is often sufficient promotion.

Technically, sales promotion is "the connecting link between national advertising on the one side and field selling on the other side. It is both a lubricant for smoothing the course of a salesman's effort and a tonic for increasing the activity of salesmen and dealers in the sale of the product."¹

American exporters realize that one of the greatest obstacles to a large volume of sales is often the lack of knowledge of merchandising methods by the retailer. It is true that the retailer in the United States has a greater "know-how" of the various ways of selling to consumers than does the Argentine. Therefore many of the sales promotion plans are directed toward educating and aiding

¹

Donald, W.J., op. cit. p. 214.

the Argentine in salesmanship. For example, the Radio Corporation of America has published an elaborate booklet explaining in detail exactly how to lay out, furnish and run¹ a self-service record shop. This booklet includes all the latest developments in scientific planning, efficiency and standardization and has proven to be tremendous aid to the retailer.

There are many other forms of aid which exporters may give to retailers to assist them in obtaining greater sales. Such things as window and counter displays, demonstrations, standard sales talks and samples are used as effectively in Argentina as they are in the United States. There is an allied advantage to the exporter who offers the dealer these promotional aids. The product of the exporter will undoubtedly become a "pet" of the dealer and he will very often exert a special effort in making the sales program a success. Dealers become particularly pleased with the products and their manufacturer, when window displays and local advertising include his name or the name of his store.

Sales promotion plans often include aids to company salesmen. One of the most effective of these is the export sales manual. This book contains general policies of the company, information regarding the product, suggestions for meeting objectives and specific information concern-

¹ Taines, B.J. and Beck, J., "Sales Promotion in Latin America," Printers Ink, Printers Ink Publishing Company, New York, Dec. 6, 1946, p. 50.

ing the buying habits and other details of customers. Bulletins are also sent to salesmen in which the best retailing ideas of dealers in all sales territories are recorded as they are discovered by other salesmen. Advance cards are also sent to prospective customers by the home office prior to the salesman's call. Such cards are sent to make an appointment or to suggest that the order be held until the salesman arrives on a specified date. Any card or letter sent to the dealer before the salesman makes his call is always appreciated by the salesman, since it serves as a letter of introduction whereby the salesman will not be completely unknown to the customer.

Contests have often been used to promote sales although in many instances it is not believed advisable because of the difficulty in evaluating the territory of each salesman fairly. One salesman's territory may have greater potentiality and produce more new customers with less effort than another. However if properly managed, the contest can prove very helpful.

There are cases where it may be wise to discontinue certain promotional campaigns. The Dennison Company recently reached such a decision. The company maintained a staff of trained personnel in Buenos Aires, offering assistance in decorating halls for special occasions. Although this was an effective method for selling their products, it was decided because the quota of sales to Argentina was easily filled it was an unnecessary ex-

pense.

Thus it may be concluded that the major principles of sales promotion prove to be just as adequate in Argentina as they are in the United States. It is merely in the detailed application that a difference may necessarily arise.

b. Sales Quotas

The common interpretation of a quota from the standpoint of the sales department is the amount or dollar value of sales, based upon predetermined estimation, which should be attained in a given territory. However since the War, there has been an additional meaning of the quota. It is, in effect, an export quota whereby the amount of certain products which can be sold outside the United States are controlled by the Government.

The export quota is only a temporary measure established to combat the shortage of certain products within the country. Its direction is under the control of the Civilian Production Administration and, although the Export Controls Act which authorizes the quota expires June 30, 1947, there is little doubt that the measure will not be extended.

The export quota covers all materials for which there is not an adequate supply in this country and which are also in demand in foreign countries. The C P A establishes percentages of the total production which may be exported from the country and when it is believed that the

supply is adequately fulfilling the demand, it may relax the control somewhat or abolish it entirely for that particular product. An example of the latter situation is the case of the used car. Controls on used cars have been lifted entirely and may be exported freely. However if it is later decided that too great a number of such cars are exported, the controls may be then re-established.

Exportation of new passenger cars has been limited to 6.5 percent of the total output. In 1946 this totaled about 129,000 units. At the time the control was established it was believed that our foreign markets would be permanently lost to other countries which encouraged foreign trade. However when comparing the number exported with that of Great Britain who must, by law, export at least fifty percent of all units manufactured, it may be seen that there was little cause for such concern. Great Britain's automobile export totaled but 117,000 units for the same period.¹

However the most common interpretation of the quota is, as previously explained, the establishment of a particular goal for the salesman to meet in a given territory. It often gives a needed incentive to salesmen to know that they have to sell a certain amount within a certain period.

¹
"Export Decontrols," American Exporter, Johnson Export Publishing Company, New York, January 1947, p.124.

They can better judge their own work and if it can be compared with a standard, the salesman will apply more concentrated effort when needed.

The quota for a given territory is based upon an estimate of future sales. The estimate must include future trends in general business and its effect on the specific industry, past sales and the ability of the salesman. There also must be some consideration given to the character of the salesman. If he is efficient and capable, yet is the type who will become downcast upon not meeting his quota and consequently relax his efforts, this quota should be lowered. On the other hand the salesman may be the type who will do everything in his power to reach a quota, even though he actually believes it cannot be met. Thus it is important that the sales manager have a personal knowledge of each salesman's character in order to adjust the quotas accordingly.

There are many export managers who do not believe in sales quota and who have sound arguments to substantiate their belief.¹ If, when the period of a particular quota is about to terminate, a salesman who has not met this quota may be tempted to go to a friendly buyer and explain the facts of the situation to him, requesting that he place an order at that time for future delivery. In other words the buyer would be purchasing goods which he or-

¹ Interview with Mr. George Cooper, Export Sales Manager, Lever Brothers Inc., November 14, 1946.

dinarily would order in the following quota period, as a favor to the salesman, in order that he may attain his present quota. Thus the present quota would be reached but the salesman would not have the benefit of the buyer's order to fulfill his next goal. The salesman would then become involved in a vicious circle, asking for future orders to meet each quota as it came due, and it would eventually be solved only by admitting the condition to the sales manager. There is also a possibility that if the first quota is met by the salesman by the manner mentioned, the sales manager might believe that this goal is too low and increase it, thus putting the salesman to a greater disadvantage.

Such a situation may not necessarily imply that the salesman is dishonest or incompetent, but may merely indicate that he is the type who must reach his goal if only for his own personal satisfaction.

Most manufacturers have established quotas covering their total volume of exports. This is calculated as a percentage of total output, conforming, of course, with the C P A ruling and is based upon as equitable a distribution among regular customers as possible. International General Electric exports ten percent of its output of standard items,¹ while the Jaeger Manufacturing Company, makers of compressors and construction equipment,² restricts their foreign sales to five percent. This

¹ Interview with Mr. E.B. Scherer, op. cit.

² Interview with Mr. R.F. Burns, op. cit.

latter Company sold approximately \$60,000 worth of equipment in Argentina, although the demand for its product was actually many times that amount. The range between five and ten percent appears to be the average for most exporting manufacturers.

The use of sales quotas is unnecessary at the present time, since there is actually no sales effort required. However in normal times, when there is much competition, and companies are vying with each other for foreign sales, it serves a useful purpose. Companies which have established quotas fairly and are willing to make adjustments in them when necessary have found them to be very satisfactory.

c. Training

Many exporters of manufactured products have considered it worth while to establish a standard training program from which all individuals, representing the sales department of the company, either directly or indirectly, may gain a thorough knowledge of the product. Such companies attempt to include as many individuals in their program as practicable, often financing trips to the United States for their agents, so that they might learn more about the product.

The program generally includes many phases of manufacturing and distribution and the length of each course is flexible enough that it may be adjusted to the period

of time available to the individual.

Although the training is designed to be of assistance to the agents and wholesalers as well as employees of the firm, it is most successful with the company's salesmen. The International General Electric Company has, perhaps,¹ one of the most complete programs for training salesmen. It has established a two year course to be spent at its various plants in the United States. It consists of spending several months in each department of manufacturing and administration so that the salesman, upon completion of the course, has a knowledge of the details of the product and the general policies of the company regarding sales and its associated fields. Thus when a salesman returns to his territory, he may more fully explain to his customers the benefits to be gained in purchasing his product. Also important is the fact that the salesman can better inform his customer of the newest developments in wholesale and retail sales methods, sales promotion and advertising. In general he can aid his customer to a greater extent in increasing his volume of sales, not only in General Electric's products but all others carried by that customer as well. This is a very effective way of increasing the Company's goodwill and insuring continued purchases from these customers.

¹

Interview with MR.E.B. Scherer, op. cit.

However training of the salesmen does not end with the completion of his course at the plant. He is constantly supplied with literature and information on recent developments in the product and sales methods. Often correspondence courses are instituted by the home office for the benefit of all salesmen.

Training also aids in determining the aptitude of prospective salesmen. Certain individuals can more easily adapt themselves to one particular kind of environment than they can to another. A salesman may work successfully in Latin American but not in France or England. Such differences in the flexibility of human beings in adapting themselves to a new environment may often be discovered beforehand by adequate training. A company using such a method to determine the proper individuals to represent them in foreign areas can often save considerable time and expense, since it usually takes about three years before a man is thoroughly acquainted with his new assignment.

Thus training can be a very important factor in a successful sales program and when properly conducted, can be a tremendous asset in developing the sales organization of a company.

3. Credit Policy

It would be difficult to draw any conclusions about the credit terms offered buyers in Argentina in normal times,

since there are so many factors entering into the situation. The policy concerning credit, established by a company, does not necessarily indicate that they require payment in only one particular manner, but that that company has formulated standards or requirements which must be met by the customer before a given method of compensation will be used. However the financial standing of the purchaser is not the only determinant. The international monetary situation must be studied before any given method of granting credit should be used.

Before elaborating on the extent of the uses of each method of credit Payment, it would be best, perhaps, to summarize these various methods of financing exports which are available in foreign trade. They are:

- a. Cash payment with the order
- b. Open account
- c. Trade acceptance, or bills of exchange
- d. Letters of credit

The first, cash payment with the order, eliminates entirely all risk in the payment. The buyer actually pays cash for the goods at the time he sends his order. This, however, is not commonly used in our trade with Argentina, since it places a tremendous hardship upon the buyer. He must have a greater amount of working capital and since this capital is used in purchasing goods long before their actual arrival,

his turnover will be low. A high turnover depends primarily upon flexible capital used for a short period for one group of investments and, after gaining a profit, free to be used on others. Such a policy of paying cash with the order does not permit this rapid turnover. Therefore most Argentine buyers will object to such terms, especially when better terms can usually be obtained from competitors. There are, however, conditions when it is necessary for the exporter to require such a method of payment. There may be no available credit information on which the seller can base his estimation of the ability of the buyer to pay. In such a case, it is not worth the risk for the seller to ship the goods without payment to an unknown customer. Another natural reason for demanding such harsh terms is in the fact that the buyer may have a reputation for not paying or accepting drafts, in which case there would be too great a risk in giving more lenient terms.

The second method is the open account. This is, in effect, the opposite of the first type mentioned. The buyer may purchase and receive goods without payment in advance, and periodically the total account is paid in full. For example, an importer in Buenos Aires may purchase within a three month period four or five articles at different times and then pay for them all at the end of this three months, repeating this action in the next period. It can be easily understood that there must be a high degree of trust in the buyer to allow him to receive goods without drawing drafts

to cover each shipment, or holding collateral such as the bills of lading. It is infrequent that there exists such a close relationship between buyer and seller, since it results only from years of association. Therefore there are few companies which trade on an open account with buyers in Argentina. Another reason for its infrequent use is the fact that the country in which the buyer conducts his business often does not have a stable government and it is not always possible to transfer money from the country without special permission. This is especially true if there are strict exchange regulations, since it is often difficult to prove indebtedness in cases where there is no written proof of an obligation to pay. Thus the open account can be very dangerous and there is always great risk in its use. However when it is possible to sell under these terms, there is a tremendous sales advantage since it more or less assures the seller of return purchases.

The third method is that of the trade acceptance or bill of exchange. This involves the use of drafts, of which there are many varieties. Specifically, the draft is an order to pay and, when accepted by the buyer, is a legal document showing indebtedness.

The general procedure employed in the use of drafts is as follows. The exporter, selling goods to the buyer, draws up a document stating that a given amount is to be paid to the seller, or to whomever he may designate, at a certain

time. This draft is then given to the seller's bank or his agent or representative in Argentina for collection. If it is given to a bank it will be sent to the correspondent bank in the country of the buyer for presentation. When presented, it is either paid for by the purchaser or accepted with payment, at some future date. The term "acceptance" means that the buyer must sign his name to the draft and thereby confirm the fact that he will pay the amount specified on the face of the draft at the time stated. After acceptance or payment, he will receive the documents to the goods and thus possession of those goods.

The classification of the various types of drafts is based upon the time of payment. There are four main types: sight, time, date and demand. The sight draft is due either upon presentation or at some specified future date. This future date may be calculated as a certain number of days after sight of the draft, or, in other words, after the buyer has first seen the draft. In such a case where the payment is not made at the time presented, the buyer must accept it to obtain all the documents. Demand drafts, are actually sight drafts which require payment immediately upon presentation. Time drafts are also sight drafts, since they become due a specified number of days after sight. And finally, there is the date draft. This is somewhat similar to the time draft except that the specified time of payment is measured from

¹
Henius, Frank, op. cit. p. 204.

the date on which the draft was drawn rather than from the time it was first seen or accepted by the buyer. Thus, a thirty day date draft would become due long before a thirty day time draft, the difference being the length of time required to send the date draft to the customer.

It is obvious that whatever type of draft is used, there is certain degree of risk involved. There is less hazard in those which must be paid upon presentation than those which become due after the customer has had the use of the product. However the credit department must be wary of buyers who purchase goods, with the agreement to pay on demand. Cases have occurred where a customer when presented with the draft, has refused to pay it, stating that the price was too high but that he would be willing to pay a lower price for the articles.¹ This, of course, places the seller in a difficult situation. He has the choices of protesting the draft and bringing the case to court, an expensive and often unsatisfactory undertaking, or selling the goods to the buyer at the price demanded, or trying to sell them to someone else in that market, or finally, returning them to the United States for sale here. Any of these methods would result in a loss to the seller on the transaction, and it is fortunate that the practice is not common. Generally, buyers are very conscious of their credit reputation and they are not willing to spoil it by such petty schemes. Any small profit

¹ Ettinger, R.P. and Golieb, D.E., "Credits and Collections," Prentice-Hall Inc., New York, 1938, p. 462.

which might be gained in obtaining the products at a lower price would soon be lost by harsher terms from all other suppliers.

This example illustrates a definitely unethical maneuver and is one which could be easily avoided. It shows a lack of foresight on the part of the customer, since he apparently did not consider the consequences. There are also other instances where a buyer, after purchasing products, will accept a time draft in all good faith, but when the payment becomes due he will be unable to meet it. Even though there was no prearranged plan to renege on the payments, this buyer too must suffer from harsher terms in the future.

Nevertheless in the years prior to World War II, the use of the draft as a means of financing sales to Argentina was widespread.¹ The length of time permitted for payment varied with the product, the customs of that particular field or the degree of competition within the market. Generally speaking, however, almost all transactions were conducted by means of the draft. The credit department had the important task of determining the credit rating of all customers, attempting to grant as liberal terms as possible.

The fourth method of financing exports is the letter of credit. "The letter of credit is a written instrument issued by the buyer's bank authorizing the seller to draw in accordance with certain terms and stipulating, in legal form,

¹Interview with Mr. Arthur W. Johnson, Assistant Manager of the Foreign Department, Shawmut National Bank, November 26, 1946.

that all such bills will be honored."¹ Essentially, the procedure used in a letter of credit is as follows. Upon ordering commodities from a manufacturer in the United States, an Argentine importer will ask his bank to establish a letter of credit for a certain amount in favor of the American exporter. The bank will then inform its correspondent bank in the United States of the action. This bank will, in turn, notify the seller of the credit established in his name and he will be free to draw upon it at that time. However in order for the seller to draw from this account, he must present within the stated period certain documents pertaining to the shipment. These include the bill of lading in negotiable and transferable form, the certificate of insurance and the invoices bearing the name of the purchaser or whoever may be designated. Although these three documents must always be presented in order that the seller may receive payment, there may be other papers required. These may include the certificate of origin, warehouse receipts, delivery orders, consular invoices and sanitary certificates. The papers needed for presentation depend upon the import regulations imposed by the Argentine customs and by the particular desires of the importer. For example, the customs regulations state that all shipments of livestock, poultry, live plants and seeds must be accompanied by a sanitary certificate.² Also, since consular invoices are not required

¹ Henius, Frank, op. cit. p. 315.

² Beitscher, Henry, "Preparing Shipments to Argentina," Department of Commerce, Bureau of Foreign and Domestic Trade, Dec. 1946 p.3.

on such articles as books, magazines and maps which are imported by registered mail or parcel post, a certificate of origin should be prepared. In such cases the certificates would accompany the other documents when being presented to the bank for payment.

Although there is little risk to the seller who uses a letter of credit, the degree of hazard varies with the type of letter of credit. The main classification consists of the revocable and irrevocable letter of credit. The revocable letter may be cancelled at any time by the issuing bank and thus presents no guarantee to the seller that he will be able to collect the payment when he presents his document at the notifying bank. The irrevocable letter cannot be revoked once it has been established so the seller is definitely assured that he will receive compensation for his shipment if he fulfills his part of the contract. There are also two types of irrevocable letters, the confirmed and the unconfirmed. The ordinary letter of credit is backed by the bank of the importer, that is the issuing bank, thus actually making letters bank acceptances. However when the notifying bank confirms the letter of credit, it too, further guarantees payment. It could safely be stated, in such an instance, that there is absolutely no credit risk to the seller. The unconfirmed irrevocable letter which is only guaranteed by the issuing bank, is considered very safe. However when the notifying bank which is thoroughly known to the seller as a reliable institution also assumes responsibility, the degree of risk is at a minimum.

The use of the letter of credit at the present time in foreign trade is widespread. It could be stated without too great an error that ninety percent of all transactions are handled in such a manner.¹ There are several reasons for this. First are the unsettled conditions in foreign exchange which result in tremendous risk when payment is not received prior to delivery. Many companies require that a letter be established for the payment of goods before those products have even begun to be manufactured.² In other cases where the product is not made to order, the letter need not be made out until just prior to the shipment. As a result of these trade restrictions it is frequently difficult, as in the case of Argentine importers, to obtain government permits to purchase American products. This control is maintained by the government in an attempt to hold as much of the credit that was built up during the war as possible.

Thus when an importer is granted permission to import a certain product and has established a letter of credit, he is assured that the products will be delivered. The market situation is another factor favoring the use of the letter of credit. There is definitely a "sellers' market" in foreign trade today and the seller can well afford to state the condition of sale. Since the letter of credit so great-

¹ Johnson, Arthur W., op. cit.

² Walker, E.B., op. cit.

ly reduces his risk, he will naturally require payments in that method.

It would be difficult, however, to predict what the future trend will be regarding foreign credits. As has been mentioned, in the period before the war when there was much competition in practically all markets, the draft was the most common instrument. The terms given for payment varied from documents against payment to ninety day sight and one hundred twenty date drafts.¹ Since the start of the war in 1939, there has been a radical change toward harsher terms for the buyer. The letter of credit has become the predominant method of payment. However it seems reasonable to assume that within a few years, if the exchange regulations and unsettled international situation becomes more normal, and there is a greater world wide production of goods, there will be a swing back to the use of the draft. This certainly should occur when the buyer can no longer pay for , or borrow money to pay for the entire shipment before arrival.

In any discussion of credit in foreign trade, great consideration should be placed upon the growing sensitivity to a high credit reputation by foreign purchasers. This has been increased by the more widespread use of credit information, institutions as Dun and Bradstreet, and the American Foreign Credit Underwriters Corporation, which issue credit reports on all foreign buyers. These buyers are beginning to

¹Ettinger, R.P. and Golieb, D.E., op. cit.

realize the benefits in obtaining more liberal terms by maintaining a favorable credit standing. Also American exporters are receiving tremendous aid in determining the financial status of prospective customers, through these credit institutions. Dun and Bradstreet has a very extensive organization maintaining an office in Buenos Aires with additional branches in Rosario, Bahia Blanca, Tucumen, Cordoba and Mendoza. The First National Bank of Boston and the National City Bank of New York as well as many other local Argentine banks offer excellent credit information.

In conclusion it should be thoroughly understood that although the credit policy of a company is important, it is actually a function of the sales program. All things being equal, it is the seller who offers the longest credit terms who succeeds in obtaining the order. This, however, does not replace the main factor of successful sales, which is price. Price continues to be the dominant influence in sales with credit terms being secondary to it.

4. Price Policy

"The pursuit of the customer dollar is just as intensive and effective in Buenos Aires as it is in Chicago, London or New York."¹ This quotation written in 1937, aptly describes the competitive situation which existed in Argentina at the time. This competition consisted of many

¹Phelps, V.L., "International Economic Position of Argentina," University of Pennsylvania, Philadelphia, 1937.

American companies as well as manufacturers and producers of all the important industrialized countries of the world. Price was the most important consideration in successful sales, with quality and service maintaining a secondary position. The reason for this distinct emphasis on price is evident. First, the market was not quality conscious to the degree that buyers and consumers are in the United States. This is a logical assumption when one considers the difference in the standard of living between the two countries. The American consumer with a greater purchasing power, has both the desire and the means to pay more for a product which is of higher quality than does the Argentine buyer. The American has also had greater experience in purchasing and has come to realize the economies of paying more for a product and receiving this higher quality. On the other hand, if the purchaser in Argentina desires to possess several articles, which he could not afford at a high price, he will accept a poorer quality with a resulting lower price and in this way perhaps purchase all the commodities that he desires.

There is another reason for the distinct emphasis on price rather than the quality, which is based on the fact that, in a rapidly developing country, it is not advisable to install expensive, permanent fixtures in a process which is subject to constant change. A member of the British Economic Mission to South America writes:

"Argentina is increasingly a price market....

Price is everything; durability in a country

changing and developing at such an astonishing rate is naturally a secondary consideration. The result has been a steady drift toward standards deemed by the buyer to be good enough for the time being, although admittedly not so good as the high standards which we in this country seek to maintain. I regard this question of standards as of paramount importance and one deserving the most earnest consideration of all trade associations."¹

This, however, does not imply that Argentina is a cheap market. There are many instances where the sale of American goods of superior quality has been successful, but at prices equal to or lower than competitors.

A great majority of the exporting companies base their price in foreign markets upon their domestic sales price. For example, the Dennison Manufacturing Company has established a flat price on all goods sent to foreign countries.² This price is set at the lowest domestic price on each item of that company, with all prices quoted F.O.B. Framingham, Massachusetts.

The Dennison Company does not attempt to control the sales price of its customers, believing that there will be no loss of goodwill because these prices will generally parallel

¹Lees, William Clare, "Some Aspects of Trade with South America," Journal of Royal Society of Arts, Volume #78, 1930, pp. 461-462.

²Interview with Mr. Phillip B. Hamilton, op. cit.

those of competitors. Thus when agents purchase goods for their own account, as they often do, their resale price will be whatever the market can stand. However agents selling for the account of the Dennison Company must follow the price structure previously established. The result of this is a fairly stable price system, changing only periodically as the general economic situation of the market changes.

Companies basing their export sales price on their domestic price must, however, add a certain amount to cover additional expenses which are peculiar only to the export trade. This is generally in the form of a certain percentage of the invoice value. The percentage is calculated as an average of the expenses incurred in obtaining documents, extra clerical costs, extra packing and developmental charges required in establishing the product in foreign markets. The exact amount which is added is the result of previous experience and is subject to constant revision. Most exporters study the breakdown of these costs annually or semi-annually to determine whether or not the proportionate amount to each factor of the total cost is in accordance with the present day expenses. If not, corrections are made and a new markup percentage is used. Thus, this method is essentially the domestic price plus a certain additional amount to cover extra expenses which are not incurred in domestic trade. The amount of profit for both foreign and domestic trade is the same for each unit.

There is another general method for pricing commodities for export trade. This involves the principle of charging what the market will bear. This can best be illustrated by citing the policy of the Coca Cola Company in Argentina.¹ The Company conducts business in a very competitive market which it considers consists not only of other soft drinks, but also allied products such as ice cream, candy, nuts and other "impulse products". The price of the finished product, that is Coca Cola, must be one that will compete favorably with these many and varied competitors.

The Coca Cola Export Corporation does not own any of the bottling plants but only sells the concentrate or syrup to these plants. However the costs of the bottling plant are, for the most part, fixed and do not vary extremely with the volume of output. The syrup is the only important variable cost in the process so that the price which the Coca Cola Company charges to the bottling plant will be the important factor in the ultimate price. As a result of this situation, the Coca Cola Company maintains a constant study of each market and compares the price of their product with those of the competitors. If Coca Cola becomes relatively expensive, when compared with competitors' prices, the price of syrup sold to the bottlers is decreased so that the price of the finished product may, in turn, be sold to the consumer at a lower price. On the other hand, the opposite of this may

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Interview with Mr. John B. Staton, op. cit.

take place. The competitive situation may justify a price increase in the finished product which will be brought about by an increase in the price of syrup to the bottler. Thus the Coca Cola Company maintains a firm control of the price of Coca Cola and by employing such a policy, it can protect the profits of the bottler and at the same time compete favorably in the market. The success of such a policy is verified by the fact that there are bottling plants in every country in Latin America except Paraguay and Dutch Guiana.

There are many other companies which price their products in foreign markets according to the amount which these markets will bear. The export merchants who purchase goods for resale sometimes use this method although, at times, they too, use a standard markup to cover expenses and profit.

a. Price Quotations

A very important consideration in quoting a price to a customer is the agreement between the buyer and seller as to the point at which the responsibility and expenses of one party ends and those of the other begins. Before the establishment of standard definitions there were frequently misunderstandings as to the exact point at which this responsibility changed from one to the other. As a result of these disagreements and differences of opinions, a joint committee representing the Chamber of Commerce of the Un-

ited States of America, National Council of American Importers Incorporated and the National Foreign Trade Council Incorporated, met in 1941 and adopted the so called "Revised American Foreign Trade Definitions, 1941". Essentially, there are three main types of quotations: F.O.B. (Free on Board), F.A.S. (Free Alongside), and C.I.F.¹ (Cost, Insurance, Freight). The duties and responsibilities of the buyer and seller under each type are as follows:

1. Free on Board

A) named inland carrier at named inland point of departure.

Under these terms the price quoted applies only at inland shipping point and seller arranges for loading of the trucks on, or in, railway cars, lighters, barges, aircraft, trucks, or other conveyance furnished for transportation.

Under this quotation

Seller must

1. place goods on, or in, conveyance or deliver to inland carrier for loading;
2. provide clean bill of lading or other transportation receipt, freight collect;
3. be responsible for any loss or damage, or both, until goods have been placed in, or on, conveyance at loading point, and clean bill of lading or other transportation receipt has been furnished by the carrier;

¹
Henius, Frank, op. cit. p. 179.

4. render the buyer, at the buyer's request and expense, assistance in obtaining the documents in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation or of importation at destination.

Buyer must

1. be responsible for all movement of goods from inland point of loading and pay all transportation costs;
2. pay export taxes, or other export fees, or charges if any, levied because of exportation;
3. be responsible for any loss or damage, or both incurred after loading at named point of departure;
4. pay all costs and charges incurred in obtaining the documents issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation, or of importation at destination.

B) named inland carrier at named inland point of departure with freight prepaid to named point of exportation.

The quotation is the same as the above except that seller prepays freight to point of exportation although he does not assume responsibility after goods have been loaded on conveyance at named inland point of departure. Buyer assumes same responsibility as in LA except that he does not pay transportation from named inland point of departure to point of exportation.

C) named inland carrier at named inland point of departure with freight allowed to named point. The seller, under this term, quotes a price including the transportation charges to the named point, shipping freight collect and deducting the cost of transportation. He assumes no responsibility from point of departure and pays transportation from that point. He receives a deduction on his invoice for the transportation costs from the point of departure to named point. All other requisites are the same as 1A.

D) named inland carrier at named point of exportation.

Under this quotation

Seller must

1. place goods in, or on, conveyance, or deliver to inland carrier for loading;
2. provide clean bill of lading or other transportation receipt paying all transportation costs from loading point to named point of exportation.
3. be responsible for any loss or damage, or both, until goods have arrived in, or on, inland conveyance at the named point of exportation;
4. render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both which the buyer may require either for purposes of exportation, or of importation at destination.

Buyer must

1. be responsible for all movement of the goods from inland conveyance at named point of exportation;
2. pay export taxes, or other fees or charges, if any, levied because of exportation;
3. be responsible for any loss or damage, or both, incurred after goods have arrived in, or on, inland conveyance at named point of exportation;
4. pay all costs and charges incurred in obtaining the documents issued in the country of origin or of shipment or of both, which may be required either for purposes of exportation, or of importation at destination.

E) Free on Board vessel at named point of shipment.

This term is similar to LD except that seller must assume all responsibilities, pay all costs incurred in placing the goods actually on board the vessel designated and provided by, or for, the buyer on the date or within the period fixed. The buyer must give the seller adequate notice of the name, sailing date, loading berth of, delivery time to the vessel. He must also assume all responsibility and costs of the goods involved if the vessel named by him fails to arrive or to load within the designated time.

F) named inland point in country of importation.

Under this quotation

Seller must

1. provide and pay for all the transportation to the named inland point in the country of importation;
2. pay export taxes or other fees or charges, if any, levied because of exportation;
3. provide and pay for marine insurance;
4. be responsible for any loss or damage, or both, until arrival of goods on conveyance at the named inland point in the country of importation;
5. pay the costs of certificate of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or of both, which the buyer may require for the importation of goods into the country of destination and, where necessary, for their passage in transit through another country;
6. pay all costs of loading, including wharfage, landing charges, and taxes, if any;
7. pay all costs of customs entry in the country of importation;
8. pay customs duties and all taxes applicable to imports, if any, in the country of importation.

Buyer must

1. take prompt delivery of goods from conveyance upon arrival at destination;
2. bear any costs and be responsible for all loss or damage, or both, after arrival at destination;

2. Free Along Side vessel in named point of shipment.

This term is similar to 1E, Free on Board vessel, named port of shipment, except that the responsibility and cost to the seller end when the goods are within reach of the ship's loading tackle. The buyer then pays for all loading operations and assumes the same responsibilities as in 1E.

3. A. Cost, Insurance, Freight, named point of destination.

Under this quotation:

Seller must

1. provide and pay for transportation to named point of destination;
2. pay export taxes or other fees or charges, if any, levied because of exportation;
3. provide and pay for marine insurance;
4. obtain and dispatch promptly to buyer, or his agent, clean bill of lading to named point of destination, and also insurance policy or negotiable insurance certificate;
5. where received-for-shipment ocean bill of lading may be tendered, be responsible for any loss or damage, or both, until the goods have been delivered into the custody of the ocean carrier;
6. where on-board ocean bill of lading is required, be responsible for any loss or damage, or both, until the goods have been delivered on board the vessel;

7. provide, at the buyer's request and expense, certificates of origin, consular invoices, or any other documents issued in the country of origin or of shipment or of both, which the buyer may require for importation of goods into the country of destination and, where necessary, for the passage in transit through another country.

Buyer must

1. accept the documents when presented;
2. receive the goods upon arrival, handle and pay for all subsequent movement of the goods, including taking delivery from the vessel in accordance with bill of lading clauses and terms; pay all costs of landing, including any duties, taxes, and other expenses at named point of destination;
3. be responsible for loss or damage to goods, or both, from time and place at which seller's obligations under (6) and (7) have ceased;
4. pay the costs of certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or both, which may be required for importation of the goods into the country of destination and, where necessary, for their passage in transit through another country.

B) Cost and Freight

This term is similar to 3A except that the buyer must provide and pay for the marine insurance.

There are various conditions which determine the particular quotations to be used. The degree of competition in the foreign market is an important factor in this determination. A company selling in a highly competitive field must offer as many services as possible. One such service is the quotation of prices on a C.I.F. basis. With such a quotation the buyer can determine, at the time he receives a price quotation, exactly what the goods will cost him delivered at his place of business, since it is easy for him to estimate the costs from the port of importation to his own city. If this buyer purchased F.O.B., named point of departure, he would have to handle all the inland transportation in the United States as well as the ocean and Argentine inland freight. It would be almost impossible for him to determine exactly what such costs would be and he could not easily estimate the benefit of the price obtained.

However some companies quote F.O.B. because of the nature of their product. For example, Dennison Manufacturing Company quotes all orders Framingham, Massachusetts, F.O.B., because their products, numbering 7000, are so varied that it would require a tremendous clerical staff to calculate

the transportation cost on each individual order.¹ It is their belief that it is more economical to require the buyer to handle the freight for his own order than to attempt to ship them all C.I.F. They alter this policy at times, when a large sale can be obtained by quoting C.I.F. At all other times they quote F.O.B.

Manufacturers of large, heavy machinery such as locomotives and turbines frequently quote F.A.S. vessel. The principal reason for this is that steamship companies charge high loading costs for equipment which is heavy and difficult to load. Often special cranes or hoists are needed to lift the material aboard. In such cases, the manufacturers feel that the buyer should assume the expense of this unusual condition and so agree to deliver the products only to that point. Also, if the exporter were to quote a price including loading fees, the buyer might not realize that there was this high element of cost in his price and thereby get a false impression of the actual cost of the equipment.

Although there are many reasons for quoting prices either F.O.B. or F.A.S. vessel, the fact remains that the majority of shipments are sent C.I.F. This method became increasingly important in Argentina in the decade prior to World War II and is a direct result of the development of intense competition in that market. As this service came into more general

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Interview with Mr. Phillip B. Hamilton, op. cit.

use in many fields, the buyer has learned to accept it as a necessity and some will not purchase on any other terms. It seems logical to assume that the trend toward the use of C.I.F. price quotation will continue to increase in future years.

5. Packaging

Manufacturers have been presented with the problem of seeking safer, more economical means of packing goods for export for many years. Although most established methods are generally satisfactory, in that the products do not become damaged with normal care in handling, this has not been sufficient for the majority of exporters. There are very few situations in foreign trade that do more to injure a seller's reputation in the opinion of the buyer, than the receipt of a shipment of goods in a damaged or unfit condition, when that damage has obviously been caused by poor or negligent packing. Often the resulting disagreement over a proper adjustment of claims has led to the severance of relations between the buyer and the seller. Thus the seller may have lost a customer merely because he did not take adequate precautions to insure the safe arrival of his goods at the place of delivery.

In packing for export, two considerations must be fulfilled. First, the cost must be at a minimum. This cost includes that of the actual packing itself, the ocean freight charges and the tariff costs. The second consideration is that of the safe arrival of the goods.

The cost of actual packing will be included in the discussion on material requirements and the safe packaging of shipments.

Ocean freight rates are based either on weight or on measurement with the decision at the option of the carrier. Naturally that basis will be chosen which will be most advantageous to the shipowner, so it is necessary for the exporter to attempt to ship his products in the lightest and smallest possible unit. Frequently the measurement of a crate may be considerably reduced by disassembling the equipment and crating it more compactly. For example, one make of passenger car, when exported in a semi-knocked-down condition occupies 401 cubic feet, but when completely knocked-down requires but 176 cubic feet of space.¹ Such a saving in space, when multiplied by the many units shipped annually, represents a considerable sum of money.

Although it is possible at times to reduce radically the size or measurement of a given shipment, it is much more difficult to decrease its weight. The only possible solution to this is the use of light materials in packing. This is limited by the requirements of strength but frequently the substitution of a material entirely different from that customarily used, has met with success. An illustration of this is the increasing use of aluminum drums in place of the heavier steel containers. Also heavy wooden crates have been rep-

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Phelps, D.M., op. cit. p. 72.

laced by lighter fiber board or plywood. Although the saving per unit may be small, an exporter making many such shipments may find it well worth the effort of experimentation.

In Argentina, the tariff regulations are an important factor in determining the type of packing to be used. Specific duties are levied on gross, net and legal weights. Gross weight includes the weight of the article plus all the additional packing. Net weight consists only of the weight of the product itself, while the legal weight is the weight of the product plus all immediate wrappings. The outside crate is not included in this legal weight.

As a general rule the duty is calculated on the legal weight. The tariff provides for a tolerance of two percent between the actual weight and the declared weight. Differences between the declared and verified quantities are fixed with a double duty.¹ The law also states that no fine may be pardoned or condoned.

The exterior of the container must be accurately described in the shipping documents: for example, to describe a case as a crate will cause considerable trouble in the customhouse. Case marks and numbers should correspond exactly to those appearing on the invoices and other documents. Numeration of cases is obligatory for general merchandise, and case numbers should be strictly consecutive. However large consignments of commodities, such as cement, are not, classed as general merchandise.

¹ Exporter's Encyclopaedia, Exporter's Encyclopaedia Company, New York, 1942, p. 208.

The packing of merchandise of different classes in a single case or package should be avoided because customs inspectors open mixed packages and examine them in detail, while for straight shipments, usually only one case taken at random, is opened. If mixed packages are sent, they should be accompanied by a document showing an itemized list of all goods in the cases. Failure to do this may result in the levy upon all packages in the shipment of the duty applicable to the highest dutiable articles contained in the shipment, even though there is only one odd article.

Catalogs and advertising literature should not be inserted in cases containing other goods but should always be packed in a separate case.

It is imperative that shipping lists be accurate when shipments are to be cleared through the Argentine customs. The regulation that goods must be weighed with their immediate wrappings or containers is strictly enforced. When goods dutiable on legal or gross weight are imported without the customary wrappings or containers, the official valuation of the goods is increased by ten percent, and if the omission of the usual packing is not noted on the invoice, there is a penalty of a double fine. Thus the exporter may realize a saving in the tariff if he can devise a packing case or crate which meets all qualifications, yet is below the ten percent official valuation established for the weight of such packing.

Goods which are packed loose in a box and which, for one reason or another, for practical purposes cannot be wrapped,

should be entered on the packing list as "loose or not wrapped". This will allow the importer to make the proper declarations in clearing the shipment.

Thus it can be easily seen that there is a great necessity for the exporter to study the Argentine customs regulations and adapt his packing methods to conform with these rulings.

The second of the considerations to be fulfilled when packing for export, that of the material requirements for the safe arrival of the goods, must also be balanced with the costs of these materials. The quantity, quality and character of the materials to be used in packing and shipping large units depends primarily upon four factors.¹ The first is the inherent nature of the unit - whether or not it, or any of its parts are fragile and easily broken, or susceptible to rust or other damage when exposed to heat, cold, moisture, water or dust or the ravages of vermin. Secondly, the degree of strains and stresses incident to the load itself, or to the required handling operations in either loading or unloading, or in the course of transportation. Thirdly, the character and capacity of available handling equipment, and finally, the modes of transportation to be used.

The manufacturer shipping goods to Argentina will undoubtedly encounter some of the most unfavorable conditions possible. Transshipping the products from trucks to railroad

cars to steamship is only a part of them. While at sea, the temperature may vary from subfreezing in the temperate zone to abnormal heat and humidity in the tropics. At the same time the shipment may become soaked with seawater or demolished by ship's vermin. The same conditions may exist in warehouses or railroad cars. Also, throughout the entire shipment, there is the danger of pilferage.

It is unnecessary to state in detail the severe handling which shipments receive. Exporters have learned that it is absolutely imperative that goods be packed to withstand more than the normal amount of mishandling if the product is to arrive in a fit condition.

The mode of transportation and the equipment available to handle the shipment presents no great problem to the exporter of products to Argentina. Most shipments enter Argentina through Buenos Aires and this port is one of the best equipped in the world. The Argentine railroads connecting all the large cities can handle all products which can be sent on American railroads. A problem may arise, however, that the point of arrival is an out of the way place, not accessible by railroad. In such a case the method of reaching this customer should be learned beforehand and the packing adapted to this method.

As mentioned previously, there must be a balance between the cost of the materials used in packing and safety in shipment. Tables of specifications have been formulated for all types of packing giving the minimum strength of the

materials used for the given weight and size of the article.¹
 For instance, a product weighing 250 pounds and with a height, width and length totaling thirteen feet, requires a case made with lumber no less than five eighths of an inch in thickness. This is the absolute minimum for safety, and if possible it should be even thicker. Aluminum drums have, in many instances, been found more satisfactory than those made with steel because of the durability of aluminum and its resistance to certain chemicals.² Although it is more expensive, the advantages often overcome the cost.

A new type of fiber board has been developed during the War which may bring a tremendous change in the packing of small sized articles. This new material, called V-board, is the result of concentrated research and the pooling of secret processes developed by container manufacturers.³ The old type fiber board could not withstand moisture and became limp and collapsed in humid climates. The V-board has remained stiff and waterproof after being immersed in water for twenty four hours. It is twice as strong and only half as heavy as the old types. The only important disadvantage to this new board is its greater cost. A box using ten square feet of fiber board ordinarily costs seven cents but the new

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Rosenthal, M.S., "Technical Procedure in Exporting and Importing," McGraw-Hill Book Company Inc., New York, 1922, p. 149.

²"Packages and Containers," U.S. Dept. of Agriculture, Bureau of Agricultural Economics, U.S. Gov't Printing Office, Washington, 1945, p. 9.

³Cady, E.L., "Weatherproof Revolution," Scientific American, Munn and Company, New York, March 1945, p. 145.

V-board costs thirty-five cents. However when all the advantages are counterbalanced with the cost, the new product often proves cheaper. The freight rates are less because of the lighter weight of the board and because there is less heavy internal support needed, since outer walls are so much stronger. The ability to ship goods through areas of humid climates without having the contents spoil or the container break, is often sufficient reason to use this new board.

Exporters include the cost of packing as a certain percentage of the selling price. In determining what the markup shall be, they generally estimate the costs incurred over a period of years and establish an average rate from this calculation. Although the markup will vary with each exporter and will depend upon the product to be shipped, it is generally about five percent of sales and rarely amounts to more than ten percent.¹ As conditions change and new methods are used, the figure is altered to represent more accurately the actual cost.

Thus it may be concluded that the importance of economical, safe methods of packing cannot be stressed too strongly, and that regardless of the method in use at the present time, there should be constant experimentation in cheaper means of packing.

¹

Interview with Mr. J.L. Ziegler, Assistant Vice President, W.R. Grace Company, January 3, 1947.

6. Division Of Territories

The problem of dividing the country of Argentina into equal sales districts is relatively simple, yet must be given considerable emphasis by companies maintaining sales staffs within that country. All concerns trading in Argentina should make a study of territorial distribution. If the company employs its own salesmen, there should be complete agreement among all the parties as to the equality of the division, since it is most important that each salesman be given a territory with sufficient sales potential to earn an average income, and, in addition, to assure the company of an adequate sales coverage. If the company trades through a resident manufacturer's agent, it is best for the exporter to investigate the agent's policy of division of districts, to determine whether or not there is complete sales coverage.

Naturally the nature of the product will determine to what extent this division should be carried. Argentina with a population of 14,130,871 in 1943 has twenty percent of that population, or two and one half million people in greater Buenos Aires.¹ The people in that area have the greatest purchasing power in the country and it is consequently the best market. The outskirts of the city contain a majority of the large factories requiring capital goods. Also ninety percent² of the imports pass through this city. Thus Buenos Aires

¹ "Argentina," (Summary of Economic Information), International Reference Service, Department of Commerce, Bureau of Foreign and Domestic Commerce, p.2.

²

Ibid.

is the natural center of commerce in Argentina. Many concerns do not find it advisable to maintain sales offices in any other city, but can send their salesmen out from that point on sales trips inland. Concerns selling high unit cost and low volume products are included in this category.

However other types of products, that is high volume, low cost goods, require a more dispersed organization. In such cases, the fact that approximately two-thirds of the population is urban further simplifies the problem. Such cities as Rosario, Cordoba, Mendoza, and Bahia Blanca are natural headquarters for local sales offices. Each is relatively distant from the other and can draw from the rural population surrounding it.

The actual selection of territories depends upon factors other than the nature of the product. Perhaps, for example, the potential demand for a given product in a given area, is not sufficient to warrant a separate territory. It must then be included within another district, perhaps combining Mar Del Plata with Buenos Aires. The outlets for distribution must also be considered. If the product is sold to wholesalers rather than through retail stores, the area can frequently be quite large.

The competitive situation is also an important factor. In a highly competitive market, much more time must be spent with each customer than would ordinarily be the case. Thus the territory must be smaller. On the other hand, if

the product is easy to sell, one salesman can cover a greater¹ area. Thus there is a certain responsiveness to demand which must be considered when determining the size of a territory. Certain markets require more time to develop than others and in many cases, the time spent in promoting sales is not worth the results.

The general topography of Argentina makes possible the division of territories into larger units. Except for the mountainous western border, the country is a great plain, extending from the Atlantic to the foothills of the Andes. There are 38,000 miles of national highways and 26,000 miles of railroads, which is more than forty percent of the total railroad mileage of South America. Thus, there are no important sections isolated from the rest of the country and it is possible to reach all parts in a relatively short time. A salesman, therefore, can cover a larger area in the same period that one could in a country where each section was independent of the other. The fact that most products sold by the United States in Argentina are adapted for sale to industry or to the middle class population, who reside in the cities, further subdivides the territories into natural districts.

Each individual country has individual demands and requirements as to the size of the territory, and in all probability, the final decision will be altered or studied periodically. It is an important problem since the sales vol-

ume attained often will vary directly with the efficiency and correctness of territorial divisions.

CHAPTER IV

SUMMARY AND CONCLUSION

It is advisable that a chapter be included in this thesis summarizing and unifying the various aspects of American marketing methods in Argentina.

It was mentioned that the export department is the foundation in any export organization and success in the foreign trade venture depends, for a large part, upon the soundness and efficiency of this organization. The size of this department varies with the volume of exports, nature of the product and the type of channel through which the goods are distributed. In any case, however, some type of organization is required.

There are, under certain circumstances, reasons for variations in the type of domestic organization to be used. Some concerns may find it more advantageous to export by substituting an export department with a combination export manager who will handle the functions of trading in the same manner as would be done by the company's own department.

A second alternative to the export department is the export subsidiary company. This type also carries on the same functions as the exporting division of the manufacturing company, the major differences being in the authority within the company and certain financial benefits.

When the decision has been reached as to the type and extent of the home organization, the method of distributing within the foreign market must be decided upon. It is at this point that the policy of the exporter must be firmly established. If he feels that every effort should be made to maintain direct control over the foreign outlets, since the sales functions can be handled more efficiently and completely by his own company than by others, he will naturally select the branch office or perhaps establish a branch factory. On the other hand, if the exporter does not wish to assume the risk of such direct methods, or does not feel that the market would support such an organization, he may employ the services of a more indirect method, that is, the manufacturers' agent or export house.

It is impossible to determine the exact percentage of trade conducted by each of the various methods. However it has been estimated that seventy-five percent of the dollar value of all goods sent abroad is exported by manufacturers, and the other twenty-five percent¹ by non-manufacturing exporters. The relative importance of the two methods may thus easily be compared.

Although the total volume of trade with Argentina increased from 1931 to 1940, the volume exported by the manufacturer increased at a greater rate than that of the

non-manufacturing exporter. Thus a trend toward more direct means of distribution is indicated.

This trend may be proven more clearly when the statistics of direct investment in Argentina are stated. The amount invested in branch offices and branch factories which also have sales distribution offices, increased from \$331 million in 1929, to \$388 million in 1940.¹ The number of factories established increased in the same period from twenty-seven to fifty-four. Actually this increase in branch factories and assembly plants is one of the most significant factors in our trade relations with Argentina. It illustrates very definitely the belief of American manufacturers that direct distribution is the most efficient method. This trend has undoubtedly been prompted both by the inadequate coverage of the market by agents and export houses and by the increased demand within that market for American goods.

However at the present time, this trend has only affected those companies which are strong enough financially to assume the risk of investing in distribution organizations and manufacturing plants within Argentina. The majority of small and intermediate companies wishing to enter into Argentine trade will find it most advantageous to deal through manufacturers' agents and export houses.

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"American Direct Investment in Foreign Countries", Department of Commerce, Bureau of Foreign and Domestic Commerce, 1940.

Distribution through agents is the most widely used of all the methods of foreign selling. It more nearly approaches the direct methods than do the export houses, since the manufacturer has some control over the ultimate disposition of his products. Although export merchants and commission houses are not as predominant as the agent, many exporters do prefer them to other methods because there is little or no risk involved in sales to foreign buyers, and because their coverage of the foreign market is more complete than could be developed by manufacturing companies.

It would be difficult to make any predictions of future trends in trade with Argentina because there are so many unforeseen conditions which might arise and completely alter existing trade relations. Utmost among these unpredictable conditions is the future attitude of the Argentine Government toward the importation of products from the United States. Whether the Government will become more nationalistic and thus attempt to develop a self-sufficient country by excluding foreign products in favor of domestic industry, or whether it will willingly admit entrance of foreign products in order to become further industrialized will determine, to a large extent, our future trade with Argentina.

If marketing methods continue to develop as efficiently and effectively in the future as they have in the past, the United States and Argentina will realize a glorious era of prosperous and successful trade relations.

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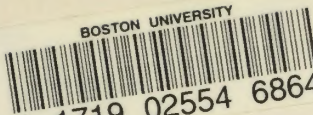
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